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Chad: Requests for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Additional Interim Assistance Under the Enhanced HIPC Initiative—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Chad

In the context of the requests for a three-year arrangement under the Poverty Reduction and Growth Facility and additional interim assistance under the enhanced HIPC Initiative, the following documents have been released and are included in this package:

- the staff paper for the requests for a three-year arrangement under the Poverty Reduction and Growth Facility and additional interim assistance under the enhanced HIPC Initiative, prepared by a staff team of the IMF, following discussions that ended on November 10, 2004, the officials of Chad on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 4, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Press Release summarizing the views of the Executive Board as expressed during its February 16, 2005 discussion of the staff report that completed the requests.

- a statement by the Executive Director for Chad.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Chad*
Memorandum of Economic and Financial Policies by the authorities of Chad*
Technical Memorandum of Understanding*
*May also be included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

CHAD

Requests for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Additional Interim Assistance Under the Enhanced HIPC Initiative

Prepared by the African Department

(In consultation with other departments)

Approved by Menachem Katz and Michael T. Hadjimichael

February 4, 2005

- Program discussions took place in N'Djaména during August 13-24, 2004, and October 28-November 10, 2004.
- The staff team comprised Mrs. Kabedi-Mbuyi (head), Ms. Strauss, Ms. Lacoche, Ms. Allain (Resident Representative, August), Ms. Haddi-Burleson (Administrative Assistant, November) and Messrs. Sacerdoti (Advisor, August), Camard, Callier (August), Kovtun (November) (all AFR), and Srour (November, INS). Mr. Rutayisire (Alternate Executive Director for Chad), Mr. N'sonde (Advisor to the Executive Director for Chad), and Mr. Kouassi (African Development Bank) participated in some policy discussions. The team worked closely with the World Bank staff.
- The Executive Board concluded the 2003 Article IV consultation with Chad and discussed the ex post assessment (EPA) of Chad's performance under Fund-supported programs on March 19, 2004. Chad's last arrangement under the Poverty Reduction and Growth Facility (PRGF) expired on January 6, 2004, without the disbursement of the final loan.
- The letter of intent (LOI) and the accompanying memorandum of economic and financial policies (MEFP) (Appendix I, Attachments I and II) describe the medium-term economic program for which the authorities are requesting Fund support under the PRGF in an amount equivalent to SDR 25.2 million (45 percent of quota) (Table 1), and additional interim assistance under the enhanced HIPC Initiative.

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EXECUTIVE SUMMARY

- **Chad has made progress in recent years in overcoming the legacy of state failure and civil war, including through macroeconomic stabilization and economic reforms.** To consolidate these results and address the remaining challenges, the authorities need to continue efforts to strengthen economic management and enhance growth prospects.

- **Economic growth was high in 2004 on the strength of oil production while growth in the non-oil economy decelerated in view of exogenous shocks to agriculture and weak domestic demand.** Chad's external position strengthened further with the significant increase in oil exports. Fiscal performance was mixed. Despite spending cuts, shortfalls in revenue and external budget support led to an accumulation of domestic and external payment arrears.

- **The authorities made progress in implementing structural reforms in 2004.** In particular, they took corrective measures for the two structural benchmarks missed under the sixth review of the previous PRGF arrangement. They completed nearly all institutional arrangements for the management of oil revenue and implemented measures to strengthen expenditure management and transparency. They also continued efforts to meet structural conditions for the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

- **The new PRGF-supported program is in line with the authorities' PRSP objectives and builds on lessons from the ex post assessment (EPA) of Chad's performance under Fund-supported programs.** It aims to create conditions for sustained private sector-led growth and poverty reduction. Hence, it focuses on consolidating the fiscal position through enhanced non-oil revenue performance and strengthened expenditure policy in a framework dominated by the use of oil revenue for poverty reduction. The program also envisages further progress in structural reforms, particularly in areas critical for increased economic efficiency and improved governance.

- **There are important risks to the program.** Social and political pressures to reorient oil revenue to nonpriority sectors could compromise political stability and the consensus needed to advance reform implementation. Other risks to the program are limited administrative capacity, weaknesses in budget and cash management, and Chad's continued heavy reliance on external budget support despite the advent of oil revenue, because of its earmarking for pro-poor spending.

- **Chad is current on its obligations to the Fund.** To avoid reemergence of arrears, the authorities have decided to maintain a balance equivalent to three month of debt service to the Fund in Chad's SDR holdings account to safeguard timely payment to the Fund.

I. BACKGROUND

1. **Chad has made progress in recent years in macroeconomic stabilization and reform implementation.** It has streamlined the regulatory environment and reduced the government's role in productive activities. Since 2001, economic growth has averaged some 10 percent a year, fueled by the construction of the Chad-Cameroon oil pipeline. Nonetheless, poverty remains widespread, and impediments to growth include the country's inadequate physical infrastructure and transportation networks, expensive and unreliable energy supply, weak governance, insecurity, limited access to financial services, and an unskilled labor force. The authorities' efforts to address these challenges in the context of Fund-supported programs have been only partially successful as documented by the EPA (IMF Country Report No. 04/111).

2. **Chad reached the decision point under the HIPC Initiative in May 2001.** Total debt relief committed was US$170 million in net present value terms, including US$18 million from the Fund. In their LOI, the authorities are also requesting additional interim assistance of SDR 1.375 million under the HIPC Initiative to cover 13.2 percent of principal obligations falling due to the Fund between March 1, 2005 and December 31, 2005.

3. **The World Bank's assistance to Chad is defined in the Country Assistance Strategy discussed by the World Bank Executive Board in December 2003.** In November 2004, the World Bank Executive Board approved the Institutional Reform Support Credit (IRSC), a one-tranche program credit of US$25 million, released on December 23, 2004. Appendixes II and III summarize Chad's relations with the Fund and the World Bank Group, while Appendixes IV and V present the results of the debt sustainability analysis and core statistical indicators.

4. **Chad has enjoyed political stability since President Déby took power in 1990.** He legalized multiparty politics and won presidential elections in 1996 and 2001. In May 2004, the parliament approved a constitutional amendment to lift the provision limiting the presidential mandate to two five-year terms. A referendum on the amendment is planned for early 2005. The next presidential election is scheduled for 2006.

5. **The conflict in the Darfur region of Sudan set off an inflow of refugees to Chad, now numbering over 200,000.** Competition for resources in the inhospitable areas receiving refugees has created social tensions. The authorities have requested humanitarian assistance for the population in these areas.

II. Recent Economic Developments

6. **Real GDP growth accelerated further in 2004 mainly on the strength of higher oil production** (Figure 1). Growth was limited to 1.9 percent in the non-oil economy, reflecting the impact of low rainfall and of the desert locust infestation on agricultural output. Furthermore, domestic demand was weak, as the contraction in government spending and the accumulation of domestic payment arrears dampened private sector activity. Inflation remained subdued despite higher energy prices, on account of the increased food supply from the preceding year and the strengthening of the euro. Consequently, the real effective exchange rate depreciated by about 1 percent during the 12-month period through end-September 2004 (Figure 2). The external current account deficit, excluding official transfers, narrowed further in 2004 aided by better terms of trade, higher oil export volume, and lower imports that resulted from the completion of the oil pipeline and weak domestic demand (Table 2). Chad contributed to the accumulation of international reserves of the regional central bank.

Chad: Selected Indicators, 2002-04
(In percentage change, unless otherwise indicated)

	2002	2003	2004
National income			
GDP at constant prices	9.9	11.3	31.0
Oil GDP	114.4	192.2	268.3
Non-oil GDP	7.7	3.5	1.9
Consumer price index (average)	5.2	-1.8	-4.8
Overall fiscal deficit (in percent of GDP) /1	-12.0	-14.3	-6.0
Current account balance (in percent of GDP) /2	-53.4	-41.8	-19.4

Source: Chadian authorities.
1/ Commitment basis.
2/ Excluding official current transfers.

7. **Fiscal performance in 2004 was mixed.** Despite spending cuts, payments arrears arose in the second quarter, and there were several instances of arrears to the Fund. Budget resources were below expectations because of the following:

- A shortfall in non-oil revenue caused mainly by delays in the implementation of revenue measures adopted in 2003.

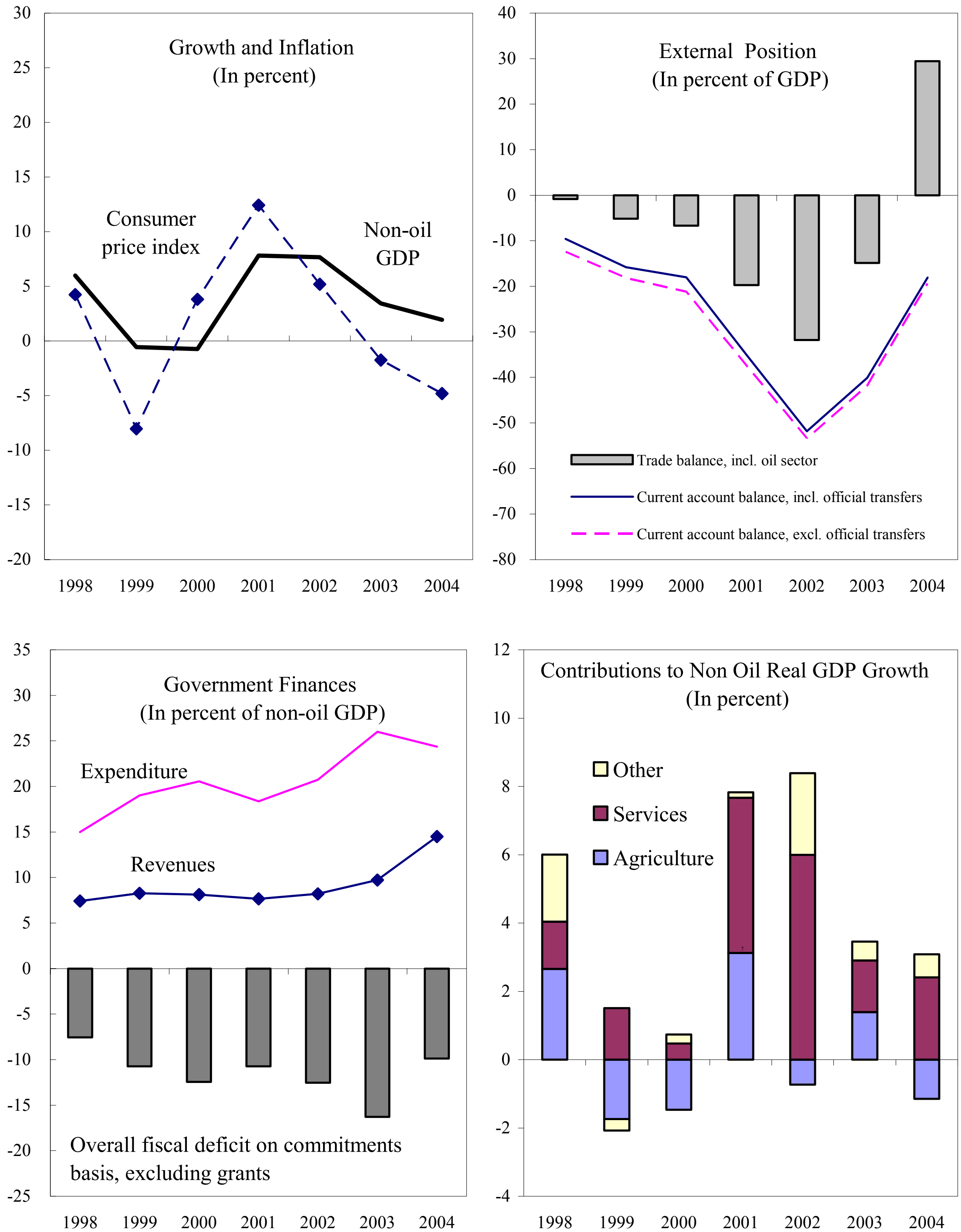
- The late receipt of oil revenue accruing to the budget owing to delays in the finalization of the institutional arrangements for the management of oil resources.

Chad: Selected Fiscal Indicators, 2002-04
(In percent of non-oil GDP)

	2002 Est.	2003 Est.	2004 Proj.	2004 Est.
Total revenue	8.2	9.7	15.0	14.5
Oil revenue	0.0	0.5	4.3	4.9
Non-oil revenue	8.2	9.2	10.7	9.6
Total expenditure	20.7	26.0	29.3	24.4
Current expenditure	10.3	11.1	11.3	10.6
Capital expenditure	10.5	15.0	18.0	13.7
Primary base balance, excl. oil sector revenue	-2.4	-3.3	-4.0	-3.4
Overall balance, excluding grants 1/	-12.5	-16.3	-14.3	-9.9
Change in arrears 2/	-0.5	0.3	-2.2	-0.6
Accumulation	...	...	...	0.8
Reduction	...	...	...	-1.4
Overall balance, excluding grants 3/	-13.0	-16.0	-16.5	-10.5
Domestic financing	0.1	1.5	-1.6	-0.7
External financing	12.9	14.5	18.0	11.2

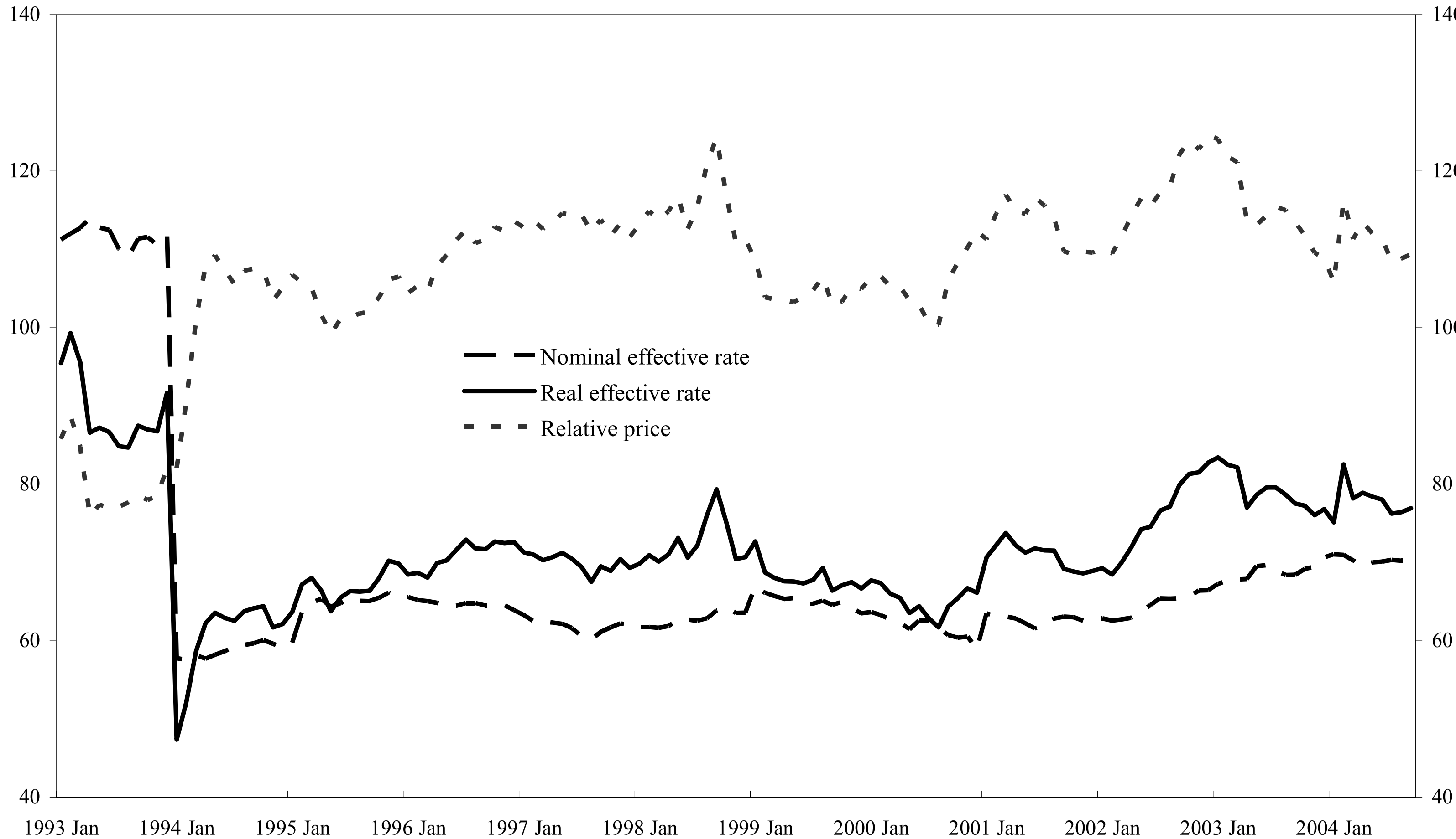
Sources: Chadian authorities; and staff estimates.
1/ Commitment basis.
2/ Change in external interest arrears and domestic payment arrears.
3/ Cash basis.

Figure 1. Chad: Selected Economic Indicators, 1998-2004



Sources: Chadian authorities; staff estimates; and IMF, Information Notice System.

Figure 2. Chad: Effective Exchange Rates and Relative Price, January 1993-September 2004
(Index, 1990 base year)



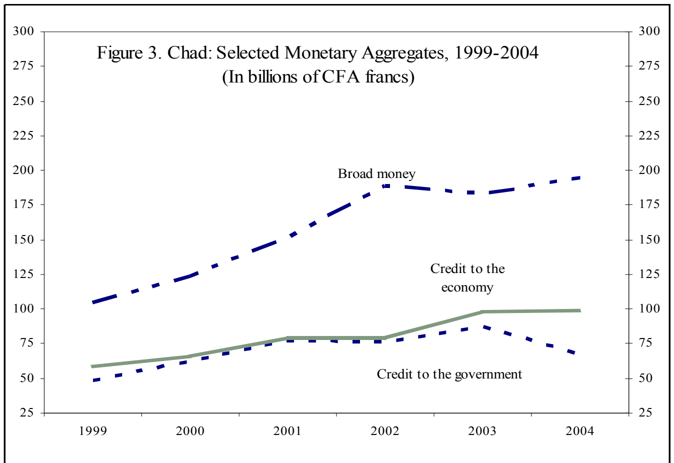
Sources: Chadian authorities; IMF staff estimates; and IMF, Information Notice System.

As called for under the law, only a portion of oil revenue was available for nonpriority spending (Box 1). Furthermore, the windfall from higher international oil prices was limited partly because of the large discount on Chadian oil (Box 2).

- A significant shortfall in aid flows, as Chad's main donors suspended disbursements and provision of debt relief after the expiration of the previous PRGF arrangement in January 2004.

8. **As a result, the government reduced budgeted expenditure by 5 percentage points of non-oil GDP** for goods and services, transfers, and domestically financed investments, and accumulated payment arrears. At end-December, arrears on external debt to Paris Club creditors totaled 0.1 percent of non-oil GDP,[1] while domestic payments arrears rose by 1.7 percent of GDP at end-September, bringing the stock of domestic arrears to 6.4 percent of non-oil GDP.

9. **Government borrowing from the banking system increased only by 1 percent of non-oil GDP** because of financing limits set by the regional Central Bank (BEAC). In 2004, Chad reached the ceiling on its statutory overdraft and was granted an exceptional advance equivalent to ½ of 1 percent of non-oil GDP. Taking into account oil revenue deposits, net credit to government declined. Credit to the private sector rose only marginally, in line with weak non-oil economic activity (Figure 3).



Sources: Chadian authorities; and IMF staff estimates and projections.

[1] Paris Club creditors have agreed to consolidate these arrears.

Box 1. Chad: The Law on Petroleum Revenue Management

The use of oil revenue is governed by the Law on Petroleum Revenue Management (LPRM), issued in 1999, its implementation decrees, and the Petroleum Management Program described in the Petroleum Development and Pipeline Project loan agreement with the World Bank. The LPRM applies to revenue from the three Doba fields in exploitation and aims to ensure that oil revenue is used in a transparent manner and primarily for poverty-reducing spending. One of the LPRM implementation decrees establishes a stabilization mechanism under which (i) expenditures for the priority sectors are programmed based on the medium-term expenditure framework (MTEF) and the program budgets, reflecting each sector's absorptive capacity; and (ii) any windfall of earmarked oil revenue compared with amounts originally budgeted is saved in the stabilization account.

Direct oil revenue (royalties and dividends), net of provisions for debt service on the oil pipeline loan, is earmarked as follows: (i) 10 percent is saved offshore in the Fund for Future Generations; (ii) 72 percent of royalties and 76.5 percent of dividends are earmarked for expenditures in priority sectors; (iii) 4.5 percent of royalties are earmarked for poverty-reducing spending in the oil-producing region; (iv) 13.5 percent of royalties and dividends are not earmarked through 2007, after which this amount is also earmarked for poverty-reducing spending.

The government's financial difficulties along with the financial crisis in the cotton and energy sectors in 2004, brought to light a number of shortcomings of the earmarking scheme regarding:

The interpretation of priority sectors defined by the law. The LPRM defines priority sectors as public health and social affairs, education, infrastructure, rural development (agriculture and livestock), and environment and water resources. In practice, this has been defined by ministry. In mid-2004, it became necessary to diverge from this practice so that cotton and energy - part of rural development and infrastructure sectors, respectively - could be included consistently with the LPRM.

The lack of flexibility in treasury cash management that became prominent in 2004 when, cash-constrained, the government accumulated payment arrears, while earmarked deposits were available.

Implications for budget processes. The implementation of the LPRM has exacerbated the fragmentation of budget processes by leading to the establishment of a parallel budget system, thus hampering the effective allocation of budget resources.

These factors may impair the efficient use of oil revenue and other government resources, and point to the need to revisit the earmarking scheme and its implementation. The authorities have agreed that the system could be reviewed after one or two years of implementation, in consultation with Bank and Fund staffs. In the meantime, the authorities will complete the review of the definition of poverty-reducing spending, based on the PRSP, currently underway with assistance from the World Bank, and pursue efforts to strengthen budget procedures, cash management, and the quality of MTEF.

Box 2. Chad: Oil Sector Developments, 2003–04

Oil production is estimated to have increased from 8.6 million barrels in 2003 to 64.4 million in 2004. Royalty payments in 2004 did not reflect the surge in international prices for three reasons:

- The Chadian oil traded with a high discount in 2004 because it is heavy and viscous, extremely acidic, and unusually high in calcium.
- Transportation costs per barrel were high because the pipeline throughput had not yet reached full capacity.
- Royalties, set at 12.5 percent of the wellhead price, were paid in 2004 using the agreed 2003 wellhead price of US$16.9 per barrel because of a disagreement between the authorities and the oil companies on export prices and transportation costs. Negotiations on these issues are ongoing.

Petroleum Royalty Payments, 2003–04
(In dollars per barrel, unless otherwise indicated)

	2003			2004					
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.
Reference spot price	29.0	29.1	30.0	31.4	31.3	33.7	33.7	37.6	35.5
Price of Doba crude 1/	27.3	26.8	28.3	28.7	27.4	25.0	23.3	26.8	24.5
Discount of Doba crude	1.7	2.3	1.7	2.7	4.0	8.7	10.4	10.9	11.0
Transportation costs	9.8	10.0	9.9	18.4	16.7	6.7	6.9	6.2	10.0
Wellhead price of Doba crude 2/	16.9	16.9	16.9	16.9	16.9	16.9	16.9	16.9	16.9
Volume of exported oil (in millions of barrels)	2.9	2.8	2.9	1.9	2.0	5.6	4.7	5.6	4.7
Royalty (in millions of US$) 3/	0.0	6.5	6.5	6.5	4.3	4.5	10.5	10.0	12.0

Sources: Chadian authorities; and World Bank staff.
1/ Implicit price.
2/ Provisional for 2004.
3/ Actual payments.

10. **Chad's compliance with regional macroeconomic policy convergence improved in 2004.** At end-December, most convergence criteria established by the Central Economic and Monetary Community (CEMAC) were met (See Table below).

Chad: Compliance with CEMAC Convergence Criteria, 2002-04
(In percent of GDP, unless otherwise indicated)

	Target	2002	2003	2004
Basic fiscal balance 1/	>=0	-3.7	-2.8	0.0
Consumer price inflation 2/	<=3	5.2	-1.8	-4.8
Level of public debt 3/	<=70	70.5	67.4	41.6
Net change in government arrears 4/	<=0	-0.1	0.1	-0.4

Sources: Chadian Authorities; and staff estimates.
1/ Overall budget balance, excluding grants and foreign financed investment.
2/ Annual percentage change.
3/ External and domestic debt.
4/ External and domestic arrears.

11. **Structural reform efforts continued in 2004.** The authorities nearly completed all the arrangements for the implementation of the law on oil revenue management, took corrective actions for two of the three structural benchmarks that were missed for the sixth review under the previous PRGF arrangement, and implemented measures to enhance transparency and expenditure management (MEFP, paras. 10–13). However, reforms in the cotton sector stalled, and the publicly-owned cotton company's financial situation has deteriorated further with the decline in international prices and the authorities' decision to raise producer prices by 19 percent for the next crop year.

12. **The authorities prepared the medium-term expenditure framework (MTEF) for priority sectors covering 2005–07,** with assistance from the World Bank. Despite some improvement in quality,[2] MTEF remained weak and loosely linked to the economy's absorptive capacity and the PRSP objectives.

III. The New Program for 2005–07

A. Macroeconomic Framework

13. **The medium-term program is guided by the authorities' PRSP.** Key macroeconomic objectives for 2005–07 are (i) real non-oil GDP growth of about 5½ percent a year, (ii) average annual inflation of about 3 percent; and (iii) a reduction in the external current account deficit (excluding official transfers) to 4.4 percent of GDP by 2007.

14. **Economic growth in the non-oil sector is expected to be driven by agriculture and services.** As called for in the PRSP, to realize existing potential in agriculture and improve prospects for diversification, the authorities will need to develop strategies to increase access to inputs and financial services, modern production techniques, and training for farmers, and to push ahead with cotton sector reform. Programmed measures to improve governance, the energy supply, and the physical infrastructure will also benefit productivity in the non-oil economy. For 2005, non-oil GDP growth is projected at 6.4 percent on account

[2] MTEFs were prepared for the first time in 2003.

of the bumper cotton crop for 2004–05 and the impact of increased public investment in infrastructure.

15. **In the oil sector, growth will decelerate after 2005,** when the pipeline capacity throughput of 84 million barrels will be reached. There is, however, potential for higher growth in the outer years with production from future oil fields that is not taken into account in the current framework.

B. Fiscal Policy

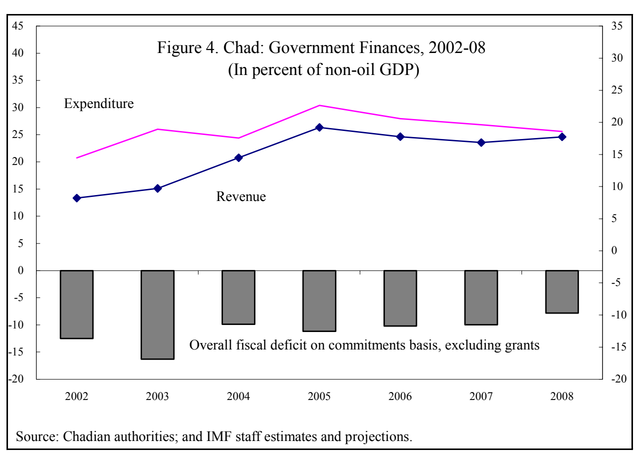
16. **The medium-term fiscal program seeks to achieve sustainability, while ensuring an efficient use of oil revenue for poverty reduction.** After an initial deterioration in 2005 to 6½ percent of non-oil GDP, the non-oil primary base deficit will narrow gradually to 4.1 percent of non-oil GDP by 2007 (Tables 3 and 4). Revenue measures for the next three years will focus on the implementation of the multiyear action plans for revenue-collecting agencies adopted in 2003. The plans seek to improve efficiency by strengthening procedures and controls and increasing computerization and training. These measures, together with the programmed streamlining of tax exemptions, will raise non-oil revenue from 9.6 percent of non-oil GDP in 2004 to 10.7 percent in 2007. Oil revenue is projected to increase by 16.8 percent on average during 2005–07 (from 3 percent of GDP to 4 percent), based on expected production from the Doba oil fields, September prices from the IMF's World Economic Outlook assumptions, and a price discount for Doba oil projected at US$ 11 per barrel.

Chad: Selected Fiscal Indicators, 2004-2008
(In percent of non-oil GDP)

	2004 Est.	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.
Total revenue	14.5	19.2	17.8	16.9	17.7
Of which: Non-oil	9.6	10.1	10.5	10.7	10.9
Total Expenditures	24.4	30.4	28.0	26.8	25.6
Current	10.6	12.1	11.3	11.1	11.0
Investment	13.7	18.3	16.7	15.8	14.6
Primary non-oil balance 1/	-3.4	-6.5	-4.6	-4.1	-3.5
Overall Balance 2/	-9.9	-11.2	-10.2	-10.0	-7.8

Source: Chadian authorities; and IMF staff projections.
1/ commitment basis, excluding grants.
2/ On a commitment basis, excluding grants.

17. **Expenditure policy will remain prudent** and consistent with the need to maintain macroeconomic stability (Figure 4). In this regard, the authorities will need to enhance policy-formulation capacity, to ensure that fiscal policy will be responsive to changes in aggregate demand that could trigger the onset of Dutch disease. Spending in priority sectors will rise from 5.7 percent of non-oil GDP in 2005 to 8½ percent in 2007.



Chad: Priority Sector Expenditures

	2002 Est.	2003 Est.	2004 Prel.	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.
	(In percentage of non-oil GDP; unless otherwise indicated)						
Priority sector expenditures 1/	3.9	4.9	5.7	10.4	8.7	8.5	8.1
of which: financed by earmarked oil revenue 1/	...	...	2.7	5.9	4.0	3.7	3.4
Expenditures by sectors							
Education	1.9	2.2	1.7	2.9	2.2	2.3	2.2
Health	1.0	1.3	1.3	1.8	1.7	1.7	1.7
Rural development	0.6	0.8	1.1	1.7	1.4	1.3	1.3
Infrastructures	0.2	0.5	1.5	3.9	3.2	2.9	2.8
Good governance	0.3	...	...	0.2	0.2	0.1	0.1

Sources: Chadian authorities; and staff estimates
1/ Excludes transfers to the oil-producing region.

18. **Enhancing public finance management and transparency will be paramount for the attainment of fiscal targets.** Programmed measures incorporate Fund recommendations from the 2003 Article IV consultation and from the World Bank in the IRSC framework. Additional measures anticipated for 2005 will address some of the weaknesses identified by the October 2004 Fiscal Affairs Department (FAD) mission (MEFP, paras. 26–28). The mission identified weaknesses in budget preparation, execution, and monitoring. In particular, it found that Chad's budget management system was marked by severe fragmentation of expenditure systems and cash management and recommended the setting of a treasury single account and the unification of the budgetary process. To help the authorities prepare the implementation of these measures, additional FAD technical assistance will be provided in mid-2005. Understandings will be reached with the authorities at the time of the first review under the program on the timing for the implementation of TA recommendations before end-2005 and the associated changes in structural conditionality. Improving the quality of MTEF and its linkages to the PRSP will be crucial for the efficient allocation of oil resources. The authorities agreed that the updated MTEF for 2006–08 will be prepared in consultation with Fund and Bank staff, on the basis of the macroeconomic framework under the program.

19. **The 2005 fiscal program targets a non-oil primary base deficit of 6½ percent of non-oil GDP.** The program reflects the authorities' resolve to meet the public's expectations of a faster growth in the non-oil economy by substantially increasing public investment. Total revenue is programmed to reach 19.2 percent of non-oil GDP, mainly on account of increased oil revenue. Non-oil revenue will rise slightly with the implementation of measures to enhance efficiency in tax administration and broaden the tax base, including by controlling tax exemptions; improving information sharing between revenue agencies, and increasing human resources and equipment (MEFP, para. 22).

20. **Total expenditure will reach some 30.4 percent of non-oil GDP,**[3] on account of increased pro-poor spending financed with earmarked oil revenue, budgeted to rise to 6.4 percent of non-oil GDP. Domestically financed investment will increase to 5½ percent of non-oil GDP with the largest share allocated to improving physical infrastructure. Although the authorities are confident that measures planned in 2005 to enhance expenditure management and procurement rules will improve implementation capacity, it is likely that the capital spending outturn will be lower than programmed. Oversight of priority sectors spending by the oversight body for the use of oil revenue (*Collège de Contrôle et de Surveillance*) and the law that unspent oil revenue must be saved in the stabilization account will reduce the risk that oil revenue will be wasted. The wage bill will be capped at CFAF 87.7 billion in 2005, equivalent to 5.9 percent of non-oil GDP, without a general wage increase. It will rise by some 8½ percent, reflecting recruitment in priority sectors and the cost of replacing the current lump-sum salary payment system in the army with a wage scale based on seniority and grade. This measure is part of a broader reform program for the armed forces that the authorities are planning for 2005.

21. **Domestic debt is programmed to be reduced by 2 percent of non-oil GDP** covering a partial settlement of 2004 arrears, and payments on restructured debt.[4] The authorities agreed that windfalls in program financing in 2005 will be used to reduce the balance on domestic arrears accumulated in 2004. Regarding the stock of treasury payment orders outstanding at end-2003 (4.7 percent of non-oil GDP), the authorities will verify their validity and prepare a settlement plan by end-December 2005, which could be implemented with donor financial assistance.

Chad: Domestic Debt and Arrears, 2003-05

(At end-June 2004, unless otherwise indicated)

	Stock		Payments in 2005	
	In billion of CFA francs	In percent of non-oil GDP	In billion of CFA francs	In percent of non-oil GDP
Restructured debt at end-June 2004	115.7	8.4	14.3	1.0
BEAC	58.4	4.2	1.9	0.1
Cotontchad	8.7	0.6	2.4	0.2
National Contingency Fund	2.5	0.2	0.5	0.0
Pension Fund	4.5	0.3	0.5	0.0
Subscriptions to multilateral banks	10.0	0.7	0.0	0.0
Contributions to international organisations	5.1	0.4	0.0	0.0
Commercial Bank of Chad	5.3	0.4	5.3	0.4
French cable and radio	2.0	0.1	0.0	0.0
Other	19.1	1.4	3.7	0.2
Outstanding payment orders				
At end-2003	65.0	4.7	0.0	0.0
At end-september 2004 (current year)	23.5	1.7	14.8	1.0

Sources: Chadian authorities; and IMF staff projections.

[3] The 2005 budget approved by the parliament on December 23, 2004, is consistent with program objectives.

[4] Restructured debt comprises domestic debt consolidated with creditors.

C. Monetary and Financial Sector Issues

22. **Monetary policy, which is conducted at the regional level, is expected to remain prudent,** consistent with the CFA franc peg to the euro. Broad money growth in 2005 will be in line with nominal non-oil GDP. Credit to the government is programmed to decline by 20 percent relative to beginning-of-period broad money, reflecting the accumulation of oil-related deposits and the reduction in government liabilities to the banking system. This decline will free up resources for increased credit to the private sector to support the pickup in non-oil economic activity (Table 5). However, weaknesses in the legal framework for secured lending and the consequent limits on bankable projects may limit bank credit expansion to the private sector in 2005. To avoid generating excess liquidity in commercial banks, the authorities will continue transferring oil-related funds to commercial banks on a quarterly basis in line with priority sector spending programs.

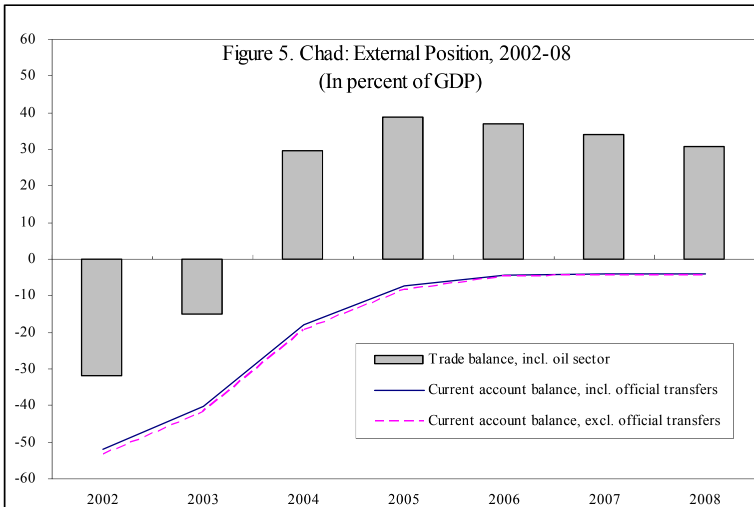
23. **The regional Central African Banking Commission (COBAC) considers the financial health of the banking system broadly satisfactory,** with most banks complying with the main prudential ratios. Nonetheless, there are vulnerabilities stemming from overexposure to public enterprises in the cotton and electricity sectors, and high dependence on deposits from the government and a few large enterprises. At end-September 2004, nonperforming loans rose to 22 percent of total credit (15 percent at end-2003), mainly because of overdue payments from public enterprises.

24. **The microfinance sector has expanded in recent years and diversified the range of its lending instruments for small businesses and low-income households.** Although reliable data are unavailable, there are indications that the sector suffered a liquidity crunch in 2004, consistent with developments in the non-oil economy.

D. External Sector Issues

25. **Chad's balance of payments changed radically with the onset of oil production and export in late 2003.** The trade balance that was traditionally in deficit has turned into surpluses owing to oil exports. The current account will improve, but to a modest extent because of profit repatriation and other payments by foreign oil companies. While foreign direct investment in the oil sector has provided the bulk of the balance of payments financing in the recent past, financing in the

Figure 5. Chad: External Position, 2002-08
(In percent of GDP)



Source: Chadian Authorities; and IMF staff estimates and projections.

medium term is expected to be dominated by inflows from grants and concessional loans to the public sector. The external current account deficit (excluding official transfers) is expected to reach 4.4 percent of GDP by 2007, down from 19.4 percent in 2004 (Table 6 and Figure 5).

26. **Chad will continue to rely on external budget support over the medium term despite the expected increase in oil revenue.** The cumulative financing gap[5] for 2005–08 would total CFAF 143.6 billion (US$270.9 million). It is partly covered with resources from multilateral and bilateral creditors. There is a residual financing gap for 2006–08, in the range of 1–1.8 percent of non-oil GDP that is expected to be covered with additional aid flows. The 2005 program is fully financed with resources from the European Union (EU), the African Development Bank, a Fund disbursement under the new PRGF, and additional debt relief under the enhanced HIPC Initiative from the Paris Club, the Fund, and other multilateral creditors (Table 7). Financing assurances are in place.

27. **Chad's stock of external debt outstanding stood at 48.3 percent of GDP at end–2003** (Table 8). The authorities recognize the need to maintain external debt at sustainable levels; they have committed to continuing borrowing on highly concessional terms, and to remain current on external debt obligations. They have also decided to maintain a balance equivalent to three months of debt service due to the Fund in Chad's SDR holdings account, to safeguard timely payment to the Fund.

28. **As discussed during the 2003 Article IV consultation, Chad's external competitiveness and export diversification are hindered by several structural factors,** including the high cost of credit, poor transportation conditions, and weak governance.[6] Inefficiencies in customs administration, red tape, and inadequate public service are some of the obstacles to trade development. Removing these obstacles will require a concerted effort and may take time. The conclusions of the Diagnostic Trade Integration Study currently under way will help the authorities in formulating trade policies. Over the medium term, improvements in competitiveness can be expected from programmed structural reforms in the energy sector and in the civil service, increased transparency, and improved physical infrastructure.

29. **The results of the Debt Sustainability Analysis (DSA)**[7] show that Chad's external debt will remain sustainable over the medium term as a result of oil production, debt relief under the HIPC Initiative, and prudent macroeconomic policies. The ratio of total public debt service to government revenue is expected to narrow from 14.4 percent in 2003 to 7 percent in 2009 and to 3.4 percent by 2023, while the net present value (NPV) of the external public debt relative to exports of goods and nonfactor services is expected to fall below 50 percent

[5] After debt relief.

[6] IMF Country Report No. 04/111, Box 2.

[7] The DSA was carried out using the Low-Income Countries' (LIC) DSA template.

during 2005–07. The NPV of public external debt relative to exports of goods and nonfactor services will stabilize at some 80 percent by 2023 (Appendix II, Tables 1 and 3).

E. Structural Reforms

30. **The reform agenda aims to improve public sector efficiency** through civil service reforms, address structural problems in the energy sector, restructure the cotton sector, and ensure transparency in public finance management (MEFP, paras. 26–30, and Box 3). Other actions envisaged under the program to address policy recommendations from the EPA are presented in Table 9.

- **To accelerate reforms in the cotton sector the authorities will prepare a strategy** comprising measures agreed upon with the World Bank under the IRSC, and reflecting the outcome of consultations planned for early 2005 with Chad's development partners (MEFP, para. 26). The staff will discuss the authorities' cotton sector reform strategy at the time of the first review to determine possible structural conditionality for the 2005 program, with emphasis on reducing cotontchad's financial difficulties, and the strategy and timetable for its privatization.

- **The civil service reform focuses on enhancing personnel management and strengthening the functioning of ministries.** The focus in 2005 will be on payroll management through the update of the civil service census and the computerization of the administrative and personnel management systems.

- **The authorities' strategy in the energy sector is twofold: (i) increase the supply of energy** to alleviate the acute shortage that has affected productive activities in the non-oil sector; (ii) rehabilitate the state-owned power company (STEE) with a view to eliminating, over time, the need for budget subsidies. To meet both objectives, various scenarios are being studied with assistance from the World Bank (MEFP, para. 27).

IV. Poverty Reduction and Social Sector Issues

31. **Chad is one of the poorest countries in the world with the incidence of poverty estimated at some 43 percent.**[8] It is ranked 167 out of 177 by the UNDP 2004 Human Development Index. Social indicators are below the average for sub-Saharan Africa, and endemic diseases such as malaria, typhoid, cholera, and HIV/AIDS are prevalent in several parts of the country. Under such circumstances, meeting the Millennium Development Goals (MDGs) will be a formidable challenge for Chad. Measuring progress toward the MDGs is hampered by a lack of reliable information on most goals. Nonetheless, available data suggest that there has been progress in the health and education sectors (Tables 10 and 11). With increased resources allocated to poverty reduction, the authorities will have to

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[8] Available information is based on the 1995–96 household survey. A new household survey carried out in January 2003 will be completed in early 2005.

Box 3. Chad: Structural Conditionality Under the Proposed PRGF Arrangement

Coverage of structural conditions under the new program

Structural conditionality is limited to areas that are critical to the program's macroeconomic objectives. This is consistent with the need to streamline conditionality, and takes into account the EPA's recommendations. Structural conditions cover fiscal management, the oil sector, and civil service reforms. Additional structural conditionality on budgetary procedures and on the cotton sector will be discussed at the time of the first review.

To strengthen fiscal management, program conditionality focuses on expenditure and cash-flow management to address past difficulties in expenditure tracking, particularly in priority areas, and to avoid an accumulation of payments arrears. Hence, the program calls for a package of measures comprising two prior actions: the preparation of a treasury cash-flow plan for 2005, to be updated monthly; and the completion of the computerization of the expenditure-execution system. To ensure the efficient use of the new computerized system, the program sets a performance criterion on the publication and communication to the Fund of quarterly budget-execution reports. Also, an inventory and verification of the stock of domestic payments arrears at end-2003 are to be carried out as a performance criterion. To ensure that the use of oil revenue is consistent with absorptive capacity, the preparation and adoption of MTEFs for priority sectors is a performance criterion.

Conditionality in **the oil sector** aims to increase transparency and continue the provision of information to the public on the use of oil revenue. Hence, the adoption of the investment strategy for oil revenue allocated to the Fund for Future Generations and the continued publication of quarterly reports prepared by the oil revenue oversight body (CCSRP) are both structural benchmarks. Although the CCSRP is an independent body, conditionality on the publication of its reports will help achieve the above-mentioned original objectives and also help ensure that its operating budget, which is part of the general government budget, is adequate.

The authorities are implementing **civil service reforms** with assistance from the World Bank. Conditionality under the PRGF is related to the government wage bill and sets a performance criterion for the creation of a payroll and civil service roster.

Structural conditions that are not covered under the new program

The program has not set conditionality for governance and energy sector reforms, which are covered by the World Bank. Programmed measures in the energy sector are presented in the MEFP (para. 27). In the area of governance, planned actions include the dissemination of information on the use of public resources, and capacity building for the improvement of the procurement process.

determine, with assistance from donors, the optimal distribution of these resources to achieve the MDGs.

32. **Chad's progress in implementing its poverty reduction strategy has been limited** partly because of delays in setting monitoring mechanisms. Measures envisaged in the

program to enhance fiscal management and transparency and advance structural reforms will help address some of the weaknesses identified in the joint staff assessment of the PRSP.

33. **Efforts to meet the other structural triggers for the completion point under the HIPC Initiative have been uneven** (Table 12). Progress has been marked in the education, health, and infrastructure sectors. Reaching the completion point in 2005 will require that Chad complete the first review under the new PRGF arrangement and satisfactorily implement outstanding structural measures. The authorities will also need to maintain efforts to improve the execution and monitoring of spending in the health and education sectors to consolidate progress made in 2003.

V. Program Risks

34. **While progress in 2004 provides a good basis for program implementation, important risks remain:**

- The coming onstream of oil revenue in late 2003 and the unprecedented high oil prices in 2004 have fueled social demands that vastly exceed available revenue, despite the implementation of modalities for the management of oil resources that favor social spending. Redirecting oil revenue toward nonpriority sectors would compromise fiscal consolidation and macroeconomic stability.

- The fragmentation of budget and cash management makes Chad highly vulnerable to delays and shortfalls in external budget support.

- Administrative capacity constraints for policy formulation and weaknesses in expenditure- and cash-management systems could undermine the attainment of fiscal targets.

35. **Prior actions under the program will help mitigate the risks.** The authorities will also need to continue efforts to disseminate information on budget execution and use of oil revenue and strengthen policy implementation to ensure the continued and timely provision of donor support.

VI. Program Design, Access, and Data Issues

36. **Quantitative performance criteria are set in the program to assess Chad's fiscal and external debt management,** while structural conditionality targets key areas relevant for enhanced macroeconomic performance. The latter cover expenditure management, civil service reforms, and transparency in the oil sector (MFEP, Tables 1 and 2).

37. **Quantitative performance criteria consist of a floor on the non-oil primary base deficit and domestic arrears reduction, a ceiling on the public wage bill, and a zero limit on external arrears accumulation and nonconcessional borrowing** (MEFP, Table 2). The program will be monitored on the basis of the above-mentioned quantitative and structural performance criteria and benchmarks. Performance will be evaluated every six months, with

the first review to be completed by end-September, 2005.The review will focus on reaching understandings on measures to improve budgetary procedures and reform the cotton sector.

38. **The proposed access of SDR 25.2 million (45 percent of quota) takes into account Chad's balance of payments needs, its indebtedness to the Fund, and record of reform implementation.** With the projected repayments and disbursements, Chad's credit outstanding to the Fund would reach 70 percent of quota by 2009, down from 110.3 at end-2004 (Table 13). In the medium term, Chad should be able to meet its obligations to the Fund. In view of its financing needs, the staff proposes that the arrangement be front-loaded, with about a third of the disbursements made in 2005 (See Table 1).

39. **A number of prior actions (MEFP, Table 1) have been implemented to help ensure an effective implementation of the program.** These measures aim to normalize Chad's relations with multilateral creditors and secure the resumption of financial assistance, establish preconditions for the strengthening of expenditure and cash-flow management, and improve the monitoring of reform implementation.

40. **Donors' TA to strengthen administrative capacity and economic and financial information is critical for the success of the program.** Chad's statistical database needs to be improved, particularly in the areas of national accounts and prices, public finance, foreign trade, and social indicators. For 2005, TA is expected in (i) budgetary procedures and cash management (IMF); (ii) public expenditure management and procurement (World Bank, EU), (iii) cotton and energy sector reforms (World Bank), (iv) civil service reforms (World Bank), (v) governance and oil revenue management (World Bank), (vi) statistics (IMF Fiscal Report on Observance of Standards and Codes), and (vii) tax administration (France).

VII. Staff Appraisal

41. **The coming onstream of oil revenue in late 2003 opened a new era for Chad.** Expectations are high both inside and outside Chad, and it is essential that the authorities seize this opportunity for lasting poverty reduction. Expected oil revenues are large relative to the country's budget, but fall short of its enormous needs. Hence, close monitoring of public expenditure as well as implementation of measures to strengthen budgetary processes and cash management will be key to the efficient use of oil revenue.

42. **Using oil revenue to reduce poverty while safeguarding macroeconomic stability and medium-term fiscal sustainability is a daunting challenge for the authorities.** Establishing nearly all the institutional arrangements for the management of oil revenue and preparing the MTEF for priority sectors are steps in the right direction. In this respect, the staff urges the authorities to sustain their efforts to improve absorptive capacity, as well as the linkage between the PRSP and the MTEF.

43. **The objectives of the authorities' medium-term program are realistic.** The program seeks to consolidate recent progress and address the remaining impediments to growth. Hence, the focus on fiscal consolidation and structural reforms in areas that are critical for economic efficiency and improved governance is appropriate. Progress on these

fronts will contribute to an efficient use of oil revenue and will move Chad toward the completion point under the HIPC Initiative.

44. **To improve Chad's medium-term growth prospects, the authorities need to reinvigorate the implementation of structural reforms, particularly in the cotton and energy sectors and in the civil service.** The staff urges the authorities to avoid further delays in cotton sector reform and to prepare a strategy for the sector, including a timeline for the privatization of Cotontchad. Programmed actions to improve supply of energy at a reasonable cost, together with increased investment in infrastructure, will contribute to productivity gains and sustain economic activity in the non-oil economy. To be successful, however, the authorities need to strengthen ownership of reforms and better monitor program implementation. In this respect, the recent creation of a unit in the Ministry of Economy and Finance to monitor the program is encouraging. Coordination with other economic committees will be key to avoiding duplication of efforts and ensuring efficiency in the implementation of reforms.

45. **Reflecting the conclusion of the EPA that greater attention to program design is essential in light of Chad's severe capacity constraints, the program's focus on strengthening fiscal management is appropriate.** In this regard, the staff urges the authorities to implement revenue measures, reduce tax exemptions, and increase coordination among revenue-collection agencies to meet the program's objectives. The full computerization of expenditure execution completed in late 2004 is an important milestone for improved transparency in fiscal management. The authorities need to use the computerized system optimally to strengthen budget execution, particularly in priority sectors, improve treasury cash-flow management, and avoid a further accumulation of payment arrears.

46. **The staff encourages the authorities to maintain the momentum given to the PRSP process in recent months,** which led to the completion of the first PRSP progress report, and urges them to accelerate implementation of structural conditions for the completion point under the enhanced HIPC Initiative. In the staff's view, conditions for the delivery of interim assistance from other creditors continue to be in place.

47. **The program entails considerable risks, and vigilance will be required to mitigate them.** The authorities are aware of these risks and have taken steps to address them. The considerable progress made in 2004 in putting in place the modalities for the utilization of oil revenue and the implementation of prior actions are important in this regard. The authorities are resolved to implement the program, which they believe is needed to consolidate past progress and efficiently implement the PRSP. They stand ready to take additional action necessary to ensure the program's success.

48. **In view of the strength of the authorities' reform program, and based on the prior actions taken, the staff supports their requests** for a new three-year arrangement under the PRGF and for additional interim assistance under the enhanced HIPC Initiative.

Table 1. Chad: Proposed Schedule of Disbursements Under the PRGF Arrangement, 2005-07

Amount of Disbursement	Disbursement Date 1/	Conditions for disbursements 2/
SDR 4,200,000	February 16, 2005	Executive Board approval of the three-year arrangement under the PRGF.
SDR 4,200,000	September 30, 2005	Observance of the performance criteria for June 2005 and completion of the first review under the PRGF arrangement.
SDR 3,360,000	February 1, 2006	Observance of the performance criteria for December 2005 and completion of the second review under the PRGF arrangement.
SDR 3,360,000	September 2006	Observance of the performance criteria for June 2006 and completion of the third review under the PRGF arrangement.
SDR 3,360,000	February 2007	Observance of the performance criteria for December 2006 and completion of the fourth review under the PRGF arrangement.
SDR 3,360,000	September 2007	Observance of the performance criteria for June 2007 and completion of the fifth review under the PRGF arrangement.
SDR 3,360,000	February 2008	Observance of the performance criteria for December 2007 and completion of the sixth review under the PRGF arrangement.

Source: IMF staff.

1/ The exact disbursement dates for the second year of the arrangement will be determined at the time of the first review.
2/ Other than the generally applicable conditions for the Poverty Reduction and Growth Facility (PRGF) arrangement.

Table 2. Chad: Selected Economic and Financial Indicators, 2002-08

	2002 Act.	2003 Est.	2004 Proj.	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.
	(Annual percentage change, unless otherwise specified)						
National income							
GDP at constant prices	9.9	11.3	31.0	12.7	3.1	3.4	3.9
Oil GDP	114.4	192.2	268.3	26.9	-1.2	-0.7	0.5
Non-oil GDP	7.7	3.5	1.9	6.4	5.3	5.4	5.4
Consumer price index (average)	5.2	-1.8	-4.8	3.0	3.0	3.0	3.0
Per capita GDP (in US Dollars)	16.9	26.9	60.7	17.0	-4.6	-0.7	2.2
Money and credit							
Net foreign assets of the banking system 1/	35.3	-16.5	12.8	22.9	...	...	...
Net domestic assets 1/	-10.8	14.3	-6.4	-15.0	...	...	...
Of which: net claims on central government 1/	-0.8	5.9	-11.0	-20.0	...	...	...
credit to nongovernment sector	-0.8	23.9	1.0	10.0	...	...	...
Broad money	24.2	-3.1	6.7	8.0	...	...	...
Income velocity of money (M2) 2/	7.1	7.3	7.1	7.1	...	...	...
External sector (valued in CFA francs)							
Exports , f.o.b.	-14.7	125.7	338.7	31.2	-8.1	-6.0	-2.0
Imports, f.o.b.	47.8	-12.4	0.4	-3.8	-12.2	-2.7	3.4
Export volume	-2.2	60.2	209.4	26.8	4.2	1.1	1.2
Of which: non-oil-related exports	-2.2	6.9	-5.4	31.8	2.4	5.4	5.4
Import volume	50.0	-9.9	-0.4	-5.8	-13.2	-1.3	2.8
Of which: non-oil-related imports	4.1	17.1	19.9	18.3	4.8	5.3	5.6
Terms of trade	-2.5	40.6	22.5	-1.6	-13.3	-2.6	-2.8
Real effective exchange rate	5.3	2.0	...	...	...	...	...
	(In percent of GDP, unless otherwise specified)						
Basic ratios							
Gross investment	62.5	55.1	24.7	19.1	16.0	16.6	17.1
Government	10.1	13.1	8.3	10.0	10.0	10.2	9.8
Private sector	52.5	41.9	16.4	9.1	5.9	6.5	7.3
Of which : oil sector	47.4	35.9	12.7	5.9	0.9	0.2	0.2
Gross national savings	10.7	15.0	6.7	11.6	11.5	12.6	13.2
Government	-0.3	0.6	3.8	5.8	4.6	4.2	5.1
Private sector	11.0	14.4	2.9	5.8	6.9	8.4	8.1
Government finance							
Revenue	7.9	8.5	8.8	10.5	10.7	10.9	11.9
Total expenditure	19.9	22.8	14.7	16.6	16.9	17.3	17.2
Current expenditure	9.9	9.7	6.4	6.6	6.8	7.1	7.4
Capital expenditure	10.1	13.1	8.3	10.0	10.0	10.2	9.8
Primary base balance, excluding oil sector revenue 3/	-2.3	-2.9	-2.1	-3.6	-2.8	-2.7	-2.4
Overall fiscal deficit (commitment basis)	-12.0	-14.3	-6.0	-6.1	-6.1	-6.4	-5.3
External sector							
Current account balance							
Including official current transfers	-51.8	-40.1	-18.1	-7.5	-4.4	-4.0	-3.9
Excluding official current transfers	-53.4	-41.8	-19.4	-8.4	-4.8	-4.4	-4.3
Excluding pipeline-related imports	-11.9	-12.8	-4.3	0.1	-0.9	-1.2	-1.4
	(In millions of U.S. dollars, unless otherwise specified)						
Nominal GDP (in billions of CFA francs)	1,395	1,513	2,291	2,730	2,669	2,712	2,839
Nominal GNP (in billions of CFA francs)	1,374	1,355	1,420	1,660	1,742	1,855	2,024

Sources: Chadian authorities; and IMF staff estimates and projections.

1/ Changes as a percent of broad money stock at beginning of period.

2/ Ratio of non-oil GDP to average broad money.

3/ The primary base balance is the overall fiscal deficit, excluding debt-service payments and foreign-financed investment.

Table 3. Chad: Consolidated Government Operations, 2002-08

	2002 Act.	2003 Est.	2004 Est.	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.
	(In billions of CFA francs)						
Total revenue	110.0	128.9	200.5	287.1	286.1	294.6	339.0
Oil revenue 1/	0.0	7.1	67.7	136.8	117.3	107.9	130.0
Of which: indirect oil revenue (profit taxes)	0.0	0.0	0.0	0.0	0.0	4.9	33.3
Non-oil revenue	110.0	121.9	132.8	150.2	168.8	186.7	209.0
Tax revenue	98.4	110.6	121.5	138.2	156.1	173.4	194.1
Nontax revenue	11.6	11.2	11.4	12.0	12.7	13.3	14.9
Total expenditure	277.9	345.3	337.5	454.2	450.2	469.2	488.4
Of which: financed by earmarked oil revenue 2/	...	...	36.8	95.8	70.1	69.6	69.7
Current expenditure	137.6	146.7	147.3	180.9	182.1	193.2	209.3
Current primary expenditure	125.6	137.2	135.3	165.2	168.9	179.5	195.1
Wages and salaries	48.9	56.2	61.0	66.3	70.5	73.9	78.5
Goods and services	24.2	36.2	21.2	29.5	36.8	37.0	42.7
Tranfers	18.9	16.5	16.5	34.5	27.5	32.4	34.8
Of which: transfers to the oil-producing region	...	...	0.0	8.2	5.0	4.5	4.2
Defense	23.9	23.8	26.7	29.7	30.9	33.3	36.1
Salaries	13.2	17.4	19.9	21.5	22.8	24.1	25.8
Goods and services	10.7	6.4	6.8	8.2	8.2	9.1	10.3
Food security	0.0	1.7	1.1	0.9	0.5	0.5	0.5
Elections	2.0	0.0	2.0	3.6	1.8	1.8	1.8
Peace accord implementation and Darfur spending 3/	2.5	2.9	6.9	0.8	0.7	0.7	0.7
Other	5.2	0.0	0.0	0.0	0.0	0.0	0.0
Interest	12.0	9.5	12.0	15.7	13.2	13.7	14.2
Domestic	1.3	0.9	2.7	3.4	2.1	2.1	2.1
External	10.6	8.6	9.3	12.3	11.1	11.7	12.1
Investment expenditure	140.3	198.6	190.2	273.2	268.1	276.0	279.1
Domestically financed	16.9	28.9	45.0	82.7	73.8	79.7	80.9
Foreign financed	123.5	169.7	145.2	190.5	194.3	196.3	198.3
Primary base balance, excluding oil sector revenue (commitment basis)	-32.5	-44.2	-47.5	-97.7	-73.9	-72.5	-66.9
Overall balance (commitment basis)	-167.9	-216.3	-137.0	-167.1	-164.1	-174.6	-149.4
Change in payments arrears	-6.5	3.6	-7.9	-16.5	-15.0	-15.0	-15.0
External interest (net)	0.4	-0.5	0.9	-1.7	0.0	0.0	0.0
Domestic	-6.9	4.1	-8.9	-14.8	-15.0	-15.0	-15.0
Overall balance (cash basis, excluding grants)	-174.4	-212.7	-144.9	-183.6	-179.1	-189.6	-164.4
Total financing	174.4	212.7	144.9	183.6	150.3	168.2	147.8
Financing (excl. expected additional financing)	174.4	212.7	127.0	146.3	134.5	147.1	145.2
External financing, (excl. exceptional financing, net)	172.6	192.2	137.3	177.7	184.1	188.5	190.0
Total grants	92.3	130.6	92.7	113.2	119.4	120.5	121.8
Current grants	10.5	6.8	...	...	...	...	...
Project grants	74.4	115.9	87.5	107.4	109.6	110.7	111.8
HIPC Initiative assistance 4/	7.4	7.8	5.1	5.8	9.9	9.8	10.0
Loans	89.9	81.1	57.7	83.1	84.8	85.6	86.5
Project loans	49.0	53.7	57.7	83.1	84.8	85.6	86.5
Other loans	40.9	27.3	0.0	0.0	0.0	0.0	0.0
Amortization due	-21.9	-13.2	-13.7	-19.9	-17.7	-16.6	-17.4
Change in external prinmcipal arrears (net)	4.7	-1.8	-0.5	-1.8	0.0	0.0	0.0
Rescheduling/debt relief	7.6	2.7	2.2	3.4	2.9	3.0	3.1
HIPC Initiative exceptionnal financing 5/	3.0	1.6	0.0	1.2	1.7	1.9	2.0
Other	4.6	1.1	2.2	2.2	1.2	1.2	1.1
Provisioning 6/	...	0.0	-8.1	-0.3	-5.3	-4.1	-4.0
Acquisition of financial assets 7/	...	-7.1	7.1	0.0	0.0	0.0	0.0
Domestic financing (net)	1.8	20.5	-10.3	-31.4	-49.6	-41.4	-44.8
Banking system 8/	7.6	13.6	-17.2	-39.0	-37.5	-25.9	-32.0
Central bank:	7.7	8.9	-19.6	-33.7	-37.5	-25.9	-32.0
Of which: stabilization account	...	0.0	-13.9	-11.3	-16.0	-6.5	-13.8
Fund for Future Generations	...	0.0	-6.7	-13.7	-11.2	-9.9	-9.3
Fund for oil-producing region 9/	...	0.0	-3.0	2.6	0.0	0.0	0.0
BEAC advances	...	...	11.1	-1.9	0.0	0.0	0.0
IMF (net)	7.0	-6.4	-7.1	-8.3	-8.3	-7.6	-6.9
Purchases 10/	12.2	4.2	0.0	0.0	0.0	0.0	0.0
Repurchases	-5.2	-10.7	-7.1	-8.3	-8.3	-7.6	-6.9
Deposits	...	...	0.0	-1.2	-2.0	-2.0	-2.0
Commercial banks	0.0	4.7	2.3	-5.3	0.0	0.0	0.0
Nonbanking system	-6.2	-4.9	-4.5	-7.1	-12.1	-15.5	-12.8
Sale of assets	0.5	11.8	11.4	14.7	0.0	0.0	0.0

Table 3. Chad: Consolidated Government Operations, 2002-08 (concluded)

	2002 Act.	2003 Est.	2004 Est.	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.
			(In billions of CFA francs)				
Domestic financing (net)	1.8	20.5	-10.3	-31.4	-49.6	-41.4	-44.8
Banking system 8/	7.6	13.6	-17.2	-39.0	-37.5	-25.9	-32.0
Central bank:	7.7	8.9	-19.6	-33.7	-37.5	-25.9	-32.0
Of which: stabilization account	...	0.0	-13.9	-11.3	-16.0	-6.5	-13.8
Fund for Future Generations	...	0.0	-6.7	-13.7	-11.2	-9.9	-9.3
Fund for oil-producing region 9/	...	0.0	-3.0	2.6	0.0	0.0	0.0
BEAC advances	...	...	11.1	-1.9	0.0	0.0	0.0
IMF (net)	7.0	-6.4	-7.1	-8.3	-8.3	-7.6	-6.9
Purchases 10/	12.2	4.2	0.0	0.0	0.0	0.0	0.0
Repurchases	-5.2	-10.7	-7.1	-8.3	-8.3	-7.6	-6.9
Deposits	...	...	0.0	-1.2	-2.0	-2.0	-2.0
Commercial banks	0.0	4.7	2.3	-5.3	0.0	0.0	0.0
Nonbanking system	-6.2	-4.9	-4.5	-7.1	-12.1	-15.5	-12.8
Sale of assets	0.5	11.8	11.4	14.7	0.0	0.0	0.0
Financing gap (+)	0.0	0.0	17.9	37.3	44.6	42.5	19.2
Financing assurances	0.0	0.0	17.9	30.8	10.6	15.9	0.0
Loans for budgetary assistance	0.0	0.0	13.3	7.8	5.3	15.9	0.0
World Bank	0.0	0.0	13.3	0.0	5.3	15.9	0.0
African Development Bank	0.0	0.0	0.0	7.8	0.0	0.0	0.0
Grants for budgetary assistance	0.0	0.0	4.6	23.0	5.2	0.0	0.0
Bilateral donors	0.0	0.0	2.6	0.0	0.0	0.0	0.0
European Union	0.0	0.0	0.0	23.0	5.2	0.0	0.0
Other grants	0.0	0.0	2.0	0.0	0.0	0.0	0.0
Proposed Fund disbursement	0.0	0.0	0.0	6.6	5.2	5.2	2.6
Residual financing gap (+)	0.0	0.0	0.0	0.0	28.8	21.4	16.6
Memorandum items:							
Repayment on restructured domestic debt	...	...	...	-14.3	-12.1	-15.5	-12.8
Expenditure on priority sectors 11/	52.8	65.6	78.4	155.9	140.7	147.8	155.1
Transfers to oil-producing region	0.0	0.0	0.0	8.2	5.0	4.5	4.2
Priority sector spending financed by earmarked oil revenue	...	0.0	36.8	87.6	65.1	65.2	65.5

Sources: Chadian authorities; and IMF staff estimates and projections.

1/ Oil export price based on *World Economic Outlook* projection with a discount for quality. Starting in 2007, profit taxes on oil companies are included.
2/ Financed by royalties, dividends, and resources earmarked for the oil-producing region.
3/ Spending includes salaries as well as goods and services and investment.
4/ Received from multilateral creditors.
5/ Received from bilateral creditors.
6/ Provisioning for the debt service on International Bank of Reconstruction and Development and European Investment Bank loans for the construction of the pipeline.
7/ Acquisition of financial assets accounts for the saving of oil revenue received in 2003. These revenues could not be used in 2003 as the framework for the management of oil resources was not finalized.
8/ Includes net use of government deposits in the banking system and net use of IMF resources.
9/ Savings for the oil-producing region will be spent as transfers for the oil-producing region.
10/ For the future, the IMF disbursement is shown under financing assurances.
11/ Excludes transfers to the oil-producing region.

Table 4. Chad: Consolidated Government Operations, 2002-08
(In percent of non-oil GDP, unless otherwise specified)

	2002 Est.	2003 Est.	2004 Est.	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.
Total revenue	8.2	9.7	14.5	19.2	17.8	16.9	17.7
Oil revenue 1/	0.0	0.5	4.9	9.2	7.3	6.2	6.8
Non-oil revenue	8.2	9.2	9.6	10.1	10.5	10.7	10.9
Tax revenue	7.3	8.3	8.8	9.3	9.7	9.9	10.2
Tax on income	3.4	4.1	3.7	3.6	3.9	4.1	4.1
Tax on goods and services	1.5	1.6	2.3	2.5	2.9	3.0	3.1
Tax on international trade	2.4	2.4	2.5	2.9	2.7	2.6	2.7
Other	0.1	0.2	0.2	0.2	0.3	0.3	0.3
Nontax revenue	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Total expenditure	20.7	26.0	24.4	30.4	28.0	26.8	25.6
Of which: financed by earmarked oil revenue 2/	...	...	2.7	6.4	4.4	4.0	3.6
Current expenditure	10.3	11.1	10.6	12.1	11.3	11.1	11.0
Current primary expenditure	9.4	10.3	9.8	11.1	10.5	10.3	10.2
Wages and salaries (including defense)	4.6	5.5	5.8	5.9	5.8	5.6	5.5
Of which: defense	1.0	1.3	1.4	1.4	1.4	1.4	1.4
Goods and services (including defense)	2.6	3.2	2.0	2.5	2.8	2.6	2.8
Of which: defense	0.8	0.5	0.5	0.5	0.5	0.5	0.5
Transfers	1.4	1.2	1.2	2.3	1.7	1.9	1.8
Others	0.7	0.3	0.7	0.4	0.2	0.2	0.2
Interest	0.9	0.7	0.9	1.1	0.8	0.8	0.7
Domestic	0.1	0.1	0.2	0.2	0.1	0.1	0.1
External	0.8	0.6	0.7	0.8	0.7	0.7	0.6
Investment expenditure	10.5	15.0	13.7	18.3	16.7	15.8	14.6
Domestically financed	1.3	2.2	3.3	5.5	4.6	4.6	4.2
Foreign financed	9.2	12.8	10.5	12.8	12.1	11.2	10.4
Primary base balance, excluding oil sector revenue (commitment basis)	-2.4	-3.3	-3.4	-6.5	-4.6	-4.1	-3.5
Overall balance (commitment basis)	-12.5	-16.3	-9.9	-11.2	-10.2	-10.0	-7.8
Change in payments arrears	-0.5	0.3	-0.6	-1.1	-0.9	-0.9	-0.8
External interest (net)	0.0	0.0	0.1	-0.1	0.0	0.0	0.0
Domestic	-0.5	0.3	-0.6	-1.0	-0.9	-0.9	-0.8
Overall balance (cash basis, excluding grants)	-13.0	-16.0	-10.5	-12.3	-11.1	-10.8	-8.6
Memorandum items:							
Expenditure on priority sectors 3/	3.9	4.9	5.7	10.4	8.7	8.5	8.1
Transfers to oil-producing region	0.0	0.0	0.0	0.5	0.3	0.3	0.2
Priority sector spending financed by earmarked oil revenue 3/	0.0	0.0	2.7	5.9	4.0	3.7	3.4
Nominal non-oil GDP (in billions of CFA francs)	1340.9	1327.4	1384.5	1493.3	1610.0	1748.3	1909.9
Nominal GDP (in billions of CFA francs)	1394.7	1513.2	2291.3	2730.4	2668.7	2712.3	2839.5
Oil revenue (in percent of total revenue)	...	5.5	33.7	47.7	41.0	36.6	38.3

Sources: Chadian authorities; and staff estimates and projections.

1/ Oil export price based on World Economic Outlook projection with a discount for quality. Starting in 2007, profit taxes on oil companies are included.

2/ Financed by royalties, dividends and resources earmarked for the oil-producing region.

3/ Excludes transfers to oil-producing region.

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Table 5. Chad: Monetary Survey, 2001-05

	2001 Dec. Act.	2002 Dec. Act.	2003 Dec. Est.	2004 Dec. Est.	2005 Dec. Proj.
	(In billions of CFA francs)				
Net foreign assets	27.8	81.3	50.3	73.7	118.4
Central bank	25.5	71.6	43.7	76.9	114.4
Commercial banks	2.3	9.7	6.6	-3.2	4.0
Medium- and long-term liabilities	-1.9	-2.4	-4.3	-3.7	-3.7
Net domestic assets	125.6	109.3	136.3	124.6	95.5
Domestic credit	157.1	155.3	185.2	166.2	137.1
Claims on the government (net) 1/	77.4	76.1	87.1	67.1	28.1
Treasury (net)	87.4	84.0	96.4	76.0	37.0
Banking sector 2/	21.2	13.4	38.6	28.1	-9.2
Fund position	66.2	70.6	57.8	47.9	46.2
Other nontreasury	-10.1	-7.9	-9.3	-8.9	-8.9
Credit to the economy	79.8	79.1	98.1	99.1	109.0
Other items (net)	-31.5	-46.0	-49.0	-41.6	-41.6
Money and quasi money	151.5	188.2	182.3	194.6	210.1
Currency outside banks	93.9	116.8	110.9	116.9	124.1
Demand deposits	47.4	59.8	60.2	63.8	69.9
Time and savings deposits	10.2	11.6	11.2	13.9	16.1
	(Changes in percent of beginning-of-period money stock, unless otherwise specified)				
Net foreign assets		35.3	-16.5	12.8	22.9
Net domestic assets	29.1	-10.8	14.3	-6.4	-15.0
Domestic credit	23.8	-1.2	15.9	-10.4	-15.0
Claims on the government (net) 1/	12.6	-0.8	5.9	-11.0	-20.0
Credit to the economy	11.2	-0.4	10.1	0.5	5.1
Money and quasi money	22.9	24.2	-3.1	6.7	8.0
Currency outside banks	10.7	15.1	-3.1	3.3	3.7
Demand deposits	10.6	8.2	0.2	1.9	3.2
Time and savings deposits	1.6	0.9	-0.2	1.5	1.1
Memorandum items:					
Credit to the economy (annual percent change)	21.0	-0.8	23.9	1.0	10.0
Nominal non-oil GDP (in billions of CFA francs)	1198.9	1,340.9	1,327.4	1,384.5	1,493.3
Money velocity (non-oil GDP relative to M2)	8.7	7.1	7.3	7.1	7.1
Gross foreign assets (in millions of euros)	142.6	212.1	152.0	191.9	246.5
Gross foreign assets (in percent of M2)	61.6	73.8	54.6	64.6	76.8

Sources: Bank of Central African States (BEAC); and IMF staff estimates and projections.

1/ Including net use of IMF resources.

2/ Data reflect the definition used by BEAC headquarters, which is not directly comparable to the definition used for program monitoring.

Table 6. Chad: Balance of Payments, 2002-08

	2002 Act.	2003 Est.	2004 Est.	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.
	(In billions of CFA francs)						
Current account, incl. official current transfers	-722.6	-606.4	-413.6	-204.4	-117.6	-108.1	-111.3
Current account, excl. official current transfers	-744.2	-632.9	-444.0	-230.6	-129.0	-119.5	-122.9
Current account, excl. oil sector imports	-165.9	-194.3	-98.7	2.0	-23.1	-32.2	-40.9
Trade balance, incl. oil sector	-443.0	-225.0	674.8	1,057.7	990.7	918.1	877.7
Trade balance, excl. oil sector	-81.1	-80.8	-104.8	-127.1	-127.6	-112.5	-113.2
Exports, f.o.b.	117.9	266.2	1,167.9	1,532.1	1,407.4	1,323.4	1,296.9
Of which: oil exports 1/	...	130.0	1,008.8	1,343.8	1,205.7	1,104.7	1,059.5
Imports, f.o.b.	560.9	491.2	493.1	474.4	416.7	405.3	419.2
Formal imports	487.4	411.7	391.9	363.4	287.9	269.1	271.4
Of which : oil sector related imports	361.8	274.2	229.2	159.1	87.4	74.1	68.6
Informal	73.5	79.5	101.2	111.0	128.8	136.2	147.8
Services, incl. oil sector (net)	-284.5	-273.3	-266.8	-213.0	-173.7	-160.5	-163.8
Services, excl. oil sector (net)	-89.6	-135.4	-181.1	-165.6	-166.7	-158.6	-161.9
Credit	51.2	50.8	51.7	55.1	57.6	60.4	63.9
Debit	335.6	324.1	318.5	268.0	231.3	220.9	227.6
Of which : oil related	194.8	137.9	85.7	47.3	7.0	1.9	1.8
Factor income (net)	-21.2	-158.2	-871.5	-1,070.4	-926.7	-857.6	-815.9
Of which : oil related debit	0.0	-110.0	-818.6	-1,010.9	-865.6	-793.8	-749.5
Current transfers (net)	26.1	50.1	49.9	21.3	-7.9	-8.2	-9.3
Official (net)	21.6	26.5	30.4	26.1	11.4	11.4	11.6
Of which: HIPC Initiative grants 2/	7.4	7.8	5.1	5.8	9.9	9.8	10.0
Private (net)	4.5	23.6	19.5	-4.9	-19.3	-19.6	-20.9
Capital and financial account	756.0	578.1	426.2	211.3	160.2	171.6	186.7
Long- and medium-term capital	770.4	614.3	420.0	259.3	153.2	153.6	168.2
Public	142.4	183.8	131.5	170.6	176.6	179.7	180.8
Project grants	74.4	115.9	87.5	107.4	109.6	110.7	111.8
Loans	68.0	67.9	43.9	63.2	67.0	69.0	69.0
Drawings	89.9	81.1	57.7	83.1	84.8	85.6	86.5
Repayments	-21.9	-13.2	-13.7	-19.9	-17.7	-16.6	-17.4
Private	628.0	430.5	288.5	88.6	-23.4	-26.1	-12.6
Direct investment	628.3	422.5	294.5	175.3	50.6	35.7	37.0
Of which : oil sector direct investment project	608.4	396.5	267.7	147.8	21.9	5.9	5.7
Other investments	-0.3	7.0	-6.0	-86.7	-73.9	-61.7	-49.6
Short-term capital and errors and omissions	-14.4	-36.2	6.2	-47.9	6.9	17.9	18.5
Overall balance	33.3	-28.3	12.6	6.9	42.6	63.5	75.4
Financing	-33.3	28.3	-12.6	-6.9	-71.4	-84.8	-92.0
Change in official net reserves	-46.1	27.9	-33.2	-37.5	-84.9	-103.8	-95.1
Of which : use of Fund resources (net)	7.0	-6.4	-7.1	-1.7	-3.0	-2.3	-4.3
Fund for Future Generations	0.0	0.0	-6.7	-13.7	-11.2	-9.9	-9.3
Change in arrears	5.1	-2.3	0.4	-3.6	0.0	0.0	0.0
Rescheduling of public debt and arrears 3/	7.6	2.7	2.2	2.2	1.2	1.2	1.1
Financing gap	0.0	0.0	17.9	32.0	41.1	39.2	18.6
Financing assurances	0.0	0.0	17.9	32.0	12.3	17.8	2.0
European Union (EU)	0.0	0.0	0.0	23.0	5.2	0.0	0.0
World Bank	0.0	0.0	13.3	0.0	5.3	15.9	0.0
African Development Bank	0.0	0.0	0.0	7.8	0.0	0.0	0.0
Bilateral donors	0.0	0.0	2.6	0.0	0.0	0.0	0.0
Projected HIPC Initiative assistance	0.0	0.0	0.0	1.2	1.7	1.9	2.0
Other	0.0	0.0	2.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	28.8	21.4	16.6
Memorandum items:	(In percent, unless otherwise indicated)						
Debt outstanding (in billions of CFA francs) 4/	732.8	730.3	780.4	849.7	919.0	1,001.6	1,066.3
Debt service/exports of goods and services 5/	14.1	7.2	1.8	1.9	1.4	1.4	1.5
Debt service/government revenue 5/	16.1	20.2	11.1	12.2	8.9	8.2	7.2
CFA franc-U.S. dollar (period average)	694.8	580.1	534.4	...	...	...	...
CFA franc-SDR (period average)	899.7	811.2	786.2	...	...	...	...

Sources: Chadian authorities; and IMF staff estimates and projections.

1/ Oil export price based on *World Economic Outlook* projection with a discount for quality.
2/ HIPC interim assistance from multilateral creditors is recorded as current transfers in the current presentation.
3/ Includes HIPC assistance from bilateral creditors for 2001 and 2002, and only traditional debt relief from 2003 onward.
4/ After stock-of-debt operation.
5/ Debt service due after HIPC Initiative assistance.

Table 7. Chad: External Financing Requirements 2002-08
(In billions of CFA francs)

	2002	2003	2004	2005	2006	2007	2008
Requirements	751.2	597.6	490.9	294.5	236.9	245.1	238.0
Current account excluding official transfers and oil bonus (deficit, +)	744.2	632.9	444.0	230.6	129.0	119.5	122.9
Debt amortization, excl. IMF	21.9	13.2	13.7	19.9	17.7	16.6	17.4
Existing debt	21.9	13.2	13.7	19.9	17.7	16.6	17.4
New debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in net foreign assets (increase, -) 1/	-53.1	34.3	-26.1	-35.8	-81.8	-101.4	-90.8
IMF repurchases	5.2	10.7	7.1	8.3	8.3	7.6	6.9
Errors and omissions	-73.3	-24.9	0.0	0.0	0.0	0.0	0.0
Resources	751.2	597.6	490.9	294.5	236.9	245.1	238.0
Official transfers (excl. multilateral HIPC Initiative assistance)	14.2	18.7	29.9	43.3	6.8	1.6	1.6
Program grants	10.5	6.8	4.6	23.0	5.2	0.0	0.0
European Union	10.5	4.2	0.0	23.0	5.2	0.0	0.0
Bilateral donors	0.0	2.6	2.6	0.0	0.0	0.0	0.0
Other donors (grants)	0.0	0.0	2.0	0.0	0.0	0.0	0.0
Other transfers (excl. multilateral HIPC Initiative assistance)	3.7	11.9	25.2	20.4	1.6	1.6	1.6
Official project grants	74.4	115.9	87.5	107.4	109.6	110.7	111.8
Long-term public loan disbursements	89.9	81.1	71.0	90.9	90.1	101.5	86.5
Project	49.0	53.7	57.7	83.1	84.8	85.6	86.5
Program	40.9	27.3	13.3	7.8	5.3	15.9	0.0
World Bank	29.1	24.2	13.3	0.0	5.3	15.9	0.0
African Development Bank	4.1	3.2	0.0	7.8	0.0	0.0	0.0
Other donors (loans)	7.6	0.0	0.0	0.0	0.0	0.0	0.0
Private capital (net)	540.3	369.4	294.8	40.7	-16.4	-8.1	5.9
Debt relief	15.0	10.5	7.4	9.1	12.8	12.9	13.1
Multilateral HIPC Initiative assistance	7.4	7.8	5.1	5.8	9.9	9.8	10.0
Bilateral HIPC Initiative assistance	3.0	1.6	0.0	1.2	1.7	1.9	2.0
Debt rescheduling	4.6	1.1	2.2	2.2	1.2	1.2	1.1
Use of IMF resources (gross)	12.2	4.2	0.0	6.6	5.2	5.2	2.6
Change in arrears (increase, +)	5.1	-2.3	0.4	-3.6	0.0	0.0	0.0
Financing gap (+)	0.0	0.0	0.0	0.0	28.8	21.4	16.6
Memorandum item:							
CFA franc per U.S. dollar (average)	694.8	580.1	534.4	530.9	530.5	529.9	529.4

Source: Chadian authorities; and IMF staff estimates and projections.
1/ Excluding the change in the net position vis-à-vis the IMF.

Table 8. Chad. Public and Publicly Guaranteed External Debt Outstanding by Creditors at End-2003

	Nominal Debt Stock Including Arrears		Arrears		Net Present Value of Debt	
	Billions of CFA francs	Percent of total	Billions of CFA francs	Percent of total	Billions of CFA francs	Percent of total
Total	730.3	100.0	1.1	100.0	372.1	100.0
Multilateral institutions	645.8	88.4	0.9	76.4	322.5	86.7
IMF 1/	55.3	7.6	0.5	41.2	42.4	11.4
World Bank/International Development Association	391.5	53.6	0.0	0.0	172.6	46.4
African Development Fund	158.0	21.6	0.0	0.0	78.0	21.0
EDF/EIB 2/	7.2	1.0	0.0	0.0	5.1	1.4
Other	33.9	4.6	0.4	35.2	24.3	6.5
Islamic Development Bank	4.5	0.6	0.0	0.0	3.4	0.9
OPEC Fund	15.0	2.0	0.3	22.6	12.3	3.3
BADEA 2/	5.8	0.8	0.1	5.7	4.7	1.3
IFAD 2/	8.6	1.2	0.1	6.9	4.0	1.1
Bilateral and commercial creditors	84.5	11.6	0.1	11.8	49.6	13.3
Paris Club official debt	23.0	3.1	0.1	11.8	6.2	1.7
Pre-cutoff-date debt	20.0	2.7	0.1	11.8	3.7	1.0
France	16.5	2.3	0.1	11.8	3.0	0.8
Germany	0.3	0.0	0.0	0.0	0.0	0.0
Italy	2.7	0.4	0.0	0.0	0.5	0.1
Netherlands	0.5	0.1	0.0	0.0	0.1	0.0
Austria	0.0	0.0	0.0	0.0	0.0	0.0
Post-cutoff-date debt	3.0	0.4	0.0	0.0	2.5	0.7
Spain	3.0	0.4	0.0	0.0	2.5	0.7
Non Paris Club official debt	60.3	8.3	0.0	0.0	42.2	11.3
China	22.0	3.0	0	0.0	14.6	3.9
Saudia Arabia	6.2	0.9	0	0.0	4.2	1.1
Kuwait	11.0	1.5	0	0.0	8.6	2.3
Israel	0.1	0.0	0	0.0	0.1	0.0
Russia	0.7	0.1	0	0.0	0.7	0.2
Taïwan Province of China	20.3	2.8	0	0.0	13.9	3.7
Commercial creditors	1.2	0.2	0.0	0.0	1.2	0.3

Source: Chadian authorities; and IMF staff estimates.

1/ Arrears to the Fund at end-2003 were cleared in February 2004.

2/ EDF, European Development Fund; EIB, European Investment Bank; BADEA, Arab Bank for Economic Development of Africa; and IFAD, International Fund for Agriculture Development.

Table 9. Chad: Main Policy Issues Identified in Ex Post Assessment (EPA) and Relevant Measures Proposed in New PRGF

Recommendations from EPA	Measures Proposed in the New Program	Timing	Main Acting Institution
Foster ownership	Set up forums to acquaint civil servants with the reforms and high-level discussion groups for senior officials.	Continuous	World Bank
Strengthen public administration	Improve the quality of MTEFs and establish a closer link with PRSP objectives, including building administrative capacity of Administrative and Financial Directorates (DAFs).	Continuous	World Bank/UNDP
	Create (as Prior action (PA)) a unit in the Ministry of Economy and Finance to monitor the reform program.	December 31, 2004	IMF
	Train both senior and mid-level officials.	Continuous	World Bank
Improve governance	Update the 2000 civil service census.	November 30, 2005	World Bank
	Implement the computerized system for the administrative management of civil servants and the payroll system (Structural Performance Criterion (SPC)).	December 31, 2005	World Bank
	Adhere to EITI.	December 31, 2005	World Bank
	Ensure, through including training, that the new procurement code is properly implemented.	Continuous	World Bank
	Set up committees for opening and assessing bids (COJOs) as well as pre-selection subcommittees.	December 31, 2005	World Bank
	Publish and communicate to the IMF the quarterly budget execution report, including detailed information of expenditure commitments, validation, payment order, and cash payments (SPC).	Continuous	IMF/World Bank

Table 9. Chad: Main Policy Issues Identified in Ex Post Assessment (EPA) and Relevant Measures Proposed in New PRGF

Recommendations from EPA	Measures Proposed in the New Program	Timing	Main Acting Institution
Implement the modalities of the use of oil revenue	Publish quarterly reports on the collection, allocation, and use of oil revenue prepared by the Oil Revenue Control and Surveillance Board (SPC).	Quarterly	IMF/World Bank
	Finalize and adopt the investment strategy for oil revenue allocated to the Fund for Future Generations (SPC for the Council of Ministers).	June 30, 2005	IMF/World Bank
Promote the development of the non-oil sectors	Adopt the reform program for the cotton sector and begin its implementation.	2005	IMF/World Bank
	Implement measures to increase production and address financial difficulties facing the water and power company (STEE). Implement cost-cutting measures to phase out subsidies currently granted by the government.	2005–06	World Bank
Improve non-oil fiscal revenue performance and public expenditure management; maintain a prudent fiscal policy	Complete the computerization of the budget execution system.	December 31, 2004	IMF/World Bank
	Prepare a monthly cash-flow plan for 2005 to be updated monthly.	Continuous	IMF
	Clear all arrears on non-reschedulable debt.	December 31, 2004	IMF
	Strengthen revenue collection through: (i) coordination and information sharing on taxpayers between the customs and tax departments; (ii) better use of the import pre-shipment inspection certificates issued by the inspection agency, BIVAC; and (iii) computerization of the exemptions granted by product and beneficiary.	2005	IMF
	Inventory and verify the stock of arrears at the Treasury, and prepare an action plan for the elimination of these arrears (SPC).	December 31, 2005	IMF

Table 9. Chad: Main Policy Issues Identified in Ex Post Assessment (EPA) and Relevant Measures Proposed in New PRGF

Recommendations from EPA	Measures Proposed in the New Program	Timing	Main Acting Institution
	Put in place a pay scale to replace the current system of lump-sum payments in the military.	2005	IMF
	Gear fiscal policy in 2005 toward reinforcing macroeconomic stability.	Continuous	IMF
	Implement reforms in the customs, tax, and cattle directorates.	2005	IMF
Strengthen the statistical base in all areas	Donor Technical Assistance.	2005	IMF
Expand conditionality to cover some key structural reforms	The structural conditionality is expanded to cover the civil service reform.	2005–06	IMF/World Bank

Source: IMF staff (IMF Country Report No. 04/111).

Table 10. Chad: Millennium Development Goals

	1990	1995	2001	2002	2015 Target
Goal 1. Eradicate extreme poverty and hunger					
Target 1. Halve, between 1990 and 2015, the proportion of people whose income is less than US$1 a day					
1. Population below US$1 a day (in percent)	...	...	...	...	
2. Poverty gap ratio at US$1 a day	...	...	...	...	
3. Share of income or consumption held by poorest 20 percent (in percent)	...	...	...	...	
Target 2. Halve, between 1990 and 2015, the proportion of people suffering from hunger					
4. Prevalence of child malnutrition (in percent of children under 5)	…	38.8	28.0	...	
5. Population below minimum level of dietary energy consumption (in percent)	58.0	49.0	34.0	...	[29.0]
Goal 2. Achieve universal primary education					
Target 3. Ensure, by 2015, that children will be able to complete a full course of primary schooling					
6. Net primary enrollment ratio (in percent of relevant age group)	…	39.7	58.3	...	[100]
7. Percentage of cohort reaching grade 5	52.8	59.4	53.9	...	[100]
8. Youth literacy rate (in percent, ages 15-24)	48.0	57.3	68.3	69.9	[100]
Goal 3. Promote gender equality and empower women					
Target 4. Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education by 2015					
9. Ratio of girls to boys in primary and secondary education (in percent)	41.4	44.9	55.5	...	[100.0]
10. Ratio of young literate females to males (in percent, ages 15-24)	64.5	73.4	83.0	84.4	
11. Share of women employed in the nonagricultural sector (in percent)	3.8	...	...	...	
12. Proportion of seats held by women in the national parliament (in percent)	…	16.0	2.0	2.0	
Goal 4. Reduce child mortality					
Target 5. Reduce by two-thirds, between 1990 and 2015, the under-5 mortality rate					
13. Under-5 mortality rate (per 1,000)	203.0	200.0	200.0	200.0	[67.7]
14. Infant mortality rate (per 1,000 live births)	118.0	118.0	118.0	117.0	
15. Immunization against measles (in percent of children under 12 months)	32.0	26.0	36.0	55.0	
Goal 5. Improve maternal health					
Target 6. Reduce by three-fourths, between 1990 and 2015, the maternal mortality ratio					
16. Maternal mortality ratio (modeled estimate, per 100,000 live births)	1500	1500	1100	...	[375]
17. Proportion of births attended by skilled health personnel	…	15	16.3	...	

Table 10. Chad: Millennium Development Goals

	1990	1995	2001	2002	2015 Target
Goal 6. Combat HIV/AIDS, malaria, and other diseases					
Target 7. Halt by 2015, and begin to reverse, the spread of HIV/AIDS					
18. HIV prevalence among females (in percent, ages 15-24)	...	...	4.3	...	
19. Contraceptive prevalence rate (in percent of women ages 15-49)	…	4.1	...	...	
20. Number of children orphaned by HIV/AIDS (in thousands)	...	...	72	...	
Target 8. Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases					
21. Prevalence of death associated with malaria	...	...	...	...	
22. Share of population in malaria risk areas using effective prevention and treatment	...	...	...	...	
23. Incidence of tuberculosis (per 100,000 people)	...	...	226	222	
24. Tuberculosis cases detected under Directly Observed Treatment, Short-course (in percent)	...	29.0	33.0	42	
Goal 7. Ensure environmental sustainability					
Target 9. Integrate the principles of sustainable development into policies and programs; reverse the loss of environmental resources.					
25. Forest area (in percent of total land area)	10.7	...	10.1	...	
26. Nationally protected areas (in percent of total land area)	...	9.1	9.1	9.1	
27. GDP per unit of energy use (purchasing power parity dollars per kilogram of oil equivalent)	…	…	…	...	
28. CO_2 emissions (in metric tons per capita)	0.0	0.0	0.0	...	
29. Proportion of population using solid fuels	…	…	…	…	
Target 10. Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation					
30. Access to improved water source (in percent of population)	14.0	...	27.0	32.0	[57]
31. Access to imporved sanitation (in percent of population)	18.0	...	29.0	...	[59]
Target 11. Achieve by 2020 significant improvement for at least 100 million slum dwellers					
32. Access to secure tenure (in percent of population)	...	...	...	...	
Goal 8. Develop a global partnership for development 1/					
Target 16. Develop and implement strategies to provide productive work for youth					
45. Unmemployment rate of population ages 15-24 (total)					
Female	...	...	...	...	
Male	...	...	...	...	
Target 17. Provide access to affordable, essential drugs					
46. Proportion of population with access to affordable essential drugs	...	...	...	...	
Target 18. Make available the benefits of new technologies, especially information and communications					
48. Fixed-line and mobile telephones (per 1,000 people)	0.7	0.8	4.3	5.8	
48. Personal computers (per 1,000 people)	...	…	1.6	1.7	

Sources: World Bank, *World Development Indicators,* November 2004; UN Statistics Department, Millennium Indicators, May 2004.

1/ Targets 12-15 and indicators 33-44 are excluded because they cannot be measured on a country-specific basis. These are related to official development assistance, market access, and the HIPC Initiative.

Table 11. Chad: Social and Demographic Indicators

	Latest Single Year			Same Region or Income Group	
	1970-75	1980-85	1996-2003	Sub-Saharan Africa	Low-Income Country
Population					
Total population, mid-year (millions)	4.0	5.1	8.6	702.6	2,310.3
Growth rate (in percent, annual average for period)	2.0	2.7	2.8	2.1	1.8
Urban population (in percent of population)	15.6	19.9	25.0	36.1	30.3
Total fertility rate (births per woman)	6.3	7.2	6.2	5.1	3.7
Poverty (percent of population)					
National headcount index	...	...	64.0	...	...
Urban headcount index	...	...	63.0	...	...
Rural headcount index	...	...	67.0	...	...
Income					
Gross National Income per capita (in U.S. dollars)	230	210	250	490	450
Consumer price index (1995=100)	...	77	149	...	...
Food price index (1995=100)	...	110	15	...	...
Income/Consumption distribution	...	...	... ...	...	...
Share of income or consumption	...	...	... ...	...	...
Gini index	...	...	... ...	...	...
Lowest quintile (in percent of income or consumption)	...	...	... ...	...	...
Highest quintile (in percent of income or consumption)	...	...	... ...	...	...
Social indicators					
Public expenditure (in percent of GDP)					
Health	...	...	2.0	2.5	1.2
Education	...	...	2.5	3.4	2.7
Social security and welfare					
Net primary school enrollment rate (in percent of age group)					
Total	...	...	58	...	78
Male	...	...	70	...	84
Female	...	...	47	...	72
Access to an improved water source (in percent of population)					
Total	...	...	27	58	75
Urban	...	...	31	83	90
Rural	...	...	26	45	69
Immunization rate (in percent, under 12 months)					
Measles	...	7	55	58	64
DPT	...	3	40	54	64
Child malnutrition (in percent, under 5 years)	...	35	28	0	44
Life expectancy at birth (in years)					
Total	40	44	48	46	58
Male	39	43	47	45	57
Female	42	46	50	47	59
Mortality (per 1,000 live births)					
Infant	149	124	117	103	82
Under 5	...	225	200	174	126
Adult mortality (15-59, per 1,000 population)					
Male	554	556	449	519	319
Female	492	449	361	461	268
Maternal (modeled, per 100,000 live births)	...	...	1,100	...	...
Births attended by skilled health staff (in percent)	...	...	16	0	38

Sources: World Bank, World Development Indicators Online, 2004; United Nations, Millenniun Indicators, 2004.

Table 12. Chad: Progress in Achieving the HIPC Initiative Completion Point Conditions

This matrix indicates progress that has been made thus far in reaching the floating completion point conditions for the Heavily Indebted Poor Countries (HIPC) Initiative.

Action	Status
Poverty Reduction Strategy Paper (PRSP)	
Ensure that a fully participatory PRSP has been prepared and satisfactorily implemented for at least one year, as evidenced by the joint staff assessment of the country's annual progress report.	*In progress*. PRSP adopted on June 4, 2003, and transmitted to the Fund and the World Bank on June 6, 2003. It was endorsed by the Board of the Fund on November 17, 2003. The first implementation progress report was finalized in December 2004.
Macroeconomic stability	
Continue maintenance of macroeconomic stability and satisfactory implementation of the PRGF-supported program.	*Ongoing*. The authorities will have to implement satisfactorily a new PRGF program for six months, as evidenced by the completion of the first review under the new program.
Governance	
• Make satisfactory progress in strengthening public expenditure management to facilitate the identification and tracking of poverty-related spending, as evidenced by the implementation for at least six months of the simplified and computerized expenditure circuit and of a functional expenditure-tracing system for primary education services.	*In progress*. Simplified expenditure and its limited computerization circuit introduced in January 2002. The Integrated Financial Management Information System was implemented. First expenditure-tracking surveys in education and health completed in May 2002. The functional expenditure-tracking system for education and health have been designed and implementation launched.
• Adopt a new law on public procurement code and its application decrees; publish a quarterly bulletin on public procurement; complete audits by internationally reputed firms for the five largest public procurement contracts granted in 2001; adopt the Budget Settlement Law for 2000 before the adoption of the Budget Law for 2002, and, similarly, adopt the Budget Settlement Law for 2001 before the adoption of the Budget Law for 2003; and nominate the judges for the commercial courts in the five largest cities.	*In progress*. The code was signed by the head of state in December 2003. Quarterly bulletins issued up to March 2004. Next issue is under preparation. The audits of the five biggest contracts awarded in 2001 and 2002 were completed in October 2002 and October 2003, respectively. The 2002 Budget Settlement Law was adopted by parliament before the adoption of the 2004 Budget Law. Commercial courts in N'Djamena and Bongor were built. Delays occurred in building the courts of Moundou, Sahr, and Abéché because of financing problems. Judges are being trained in the meantime. The draft law on commercial courts has yet to be finalized.
• Adopt a governance strategy and action plan in consultation with IDA and the IMF and implement it for at least one year.	*In progress.* The governance strategy and action plan were adopted in August 2002.

Table 12. Chad: Progress in Achieving the HIPC Initiative Completion Point Conditions

Action	Status
Priority sectors [1]/	
Health	
• Ensure that at least 75 percent of all health districts and health centers accross the country are operational, up from 68 percent in 1999.	*Completed.* 89.2 percent of all health districts and 79.7 percent of all health centers were operational at end 2003.
• Achieve a DPT3 vaccination rate of at least 40 percent, up from 35 percent in 1999, and an assisted-delivery rate for babies of at least 20 percent, up from 15 percent in 1998.	*In progress*. DPT3 vaccination rate was estimated at 43 percent in 2000 but declined to 39 percent in 2001, before increasing to 41 percent in 2002 and 58.4 percent as of end-2003. Assisted–delivery rate in public health centers and hospitals reached 19.7 percent at end 2003.
HIV/AIDS and sexually transmitted diseases	
• Increase the sale of condoms through the social marketing project MASOCOT by at least 25 percent over the 2.2 million condoms sold in 2000.	*In progress.* MASOCOT sold 2.4 million and 4.7 million condoms respectively, in 2001 and 2002, and 3.2 million as of end-2003.
• Increase the treated cases of genital ulcers to at least 30,000 a year, up from 12,000 in 1998, and the treated cases of purulent urethritis to at least 40,000 a year, up from 21,000 in 1998. Decrease the prevalence of syphilis among pregnant women from 6 percent in 1998 to at most 4 percent.	*In progress*. Treated cases of genital ulcers declined to 8,225 in 2001 and increased to 8,675 in 2002; the number reached 7,928 cases as of end–2003. Treated cases of purulent urethritis declined to 14,770 in 2000 and 13,550 in 2002 and an estimated 10,200 in 2003. Prevalence of syphilis among pregnant women fell to 5.7 percent in 2001, 3.4 percent in 2002, and 0.08 percent in 2003.
Education	
• Increase the gross enrollment rate to at least 61 percent for girls and 89 percent for boys, up from 50 percent and 85 percent, respectively, in 1998–99.	*Completed.* Gross primary enrollment rate (GPER) was 58.7 percent for girls and 88 percent for boys in 2000–01. Preliminary data indicate that, in 2001–02, GPER was 65 percent for girls and 97.2 percent for boys.
• Reduce the repeater rate from 26 percent in 1998–99 to at most 22 percent.	*In progress.* The repeater rate declined to 24 percent in 2000–2001. No progress was made in 2003.
Basic infrastructure	
Ensure that at least 50 percent of the all-year road network can be used throughout the year (80 percent of the network cannot be used for three to five months during the rainy season).	*Completed.* As of end May 2004, 61.4 percent of all-year road network could be used throughout the year, up from 43.5 percent at end–2001.
Rural development	
• Increase access to potable water to at least 32 percent, up from 27 percent in 2000.	*Completed.* Access reached 34 percent as of end–2003.

Table 12. Chad: Progress in Achieving the HIPC Initiative Completion Point Conditions

Action	Status
• Increase the share of agricultural families equipped with plows from 24 percent in 2000 to at least 26 percent.	*In progress.* To meet the target, 16,000 plows need to be sold. The share of agricultural families equipped with plows increased by 0.43 percent (3,456 plows) as of end-October 2003. In addition, 7,554 plows are in the process of being sold to farmers. Additional procurement contracts for remaining plows are being processed.
• For livestock holders, increase the number of water points by at least 10 percent, relative to 1,138 water points in 2000.	*In progress.* Sixty-one water points financed by the HIPC Initiative funds are being built.

1/ For each indicator, understanding was reached on how to measure progress.

Table 13. Chad: Fund Position, 2000-09

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	(In millions of SDRs)									
Total transactions (net)	9.5	12.2	9.4	-4.7	-9.2	-0.2	-0.4	0.7	-5.7	-8.4
Disbursements	10.4	13.4	13.4	5.2	0.0	8.4	6.7	6.7	3.4	0.0
PRGF Repayments before HIPC assistance	0.6	2.5	5.8	12.4	9.5	10.4	10.6	9.7	8.8	8.2
HIPC assistance	0.0	1.4	2.2	2.9	0.8	2.1	3.8	3.9	0.0	0.0
PRGF repayment after HIPC assistance	0.6	1.1	3.6	9.5	8.7	8.3	6.8	5.8	8.8	8.2
Charges and interest	0.3	0.2	0.4	0.4	0.5	0.3	0.3	0.3	0.3	0.2
Total Fund credit outstanding 1/										
Outstanding PRGF disbursements	60.0	70.9	78.5	71.3	61.8	59.7	55.9	52.9	47.4	39.2
	(In percent of quota, unless otherwise indicated)									
Total Fund credit outstanding 1/										
Outstanding PRGF disbursements	107.1	126.6	140.2	127.3	110.3	106.7	99.8	94.5	84.7	70.0
Memorandum item:										
Quota (in million SDRs)	56.0									

Source: IMF, Finance Department

1/ End of period

Chad - Three-Year Arrangement under
the Poverty Reduction and Growth Facility

Attached hereto is a letter dated February 4, 2005 from the Minister of Economy and Finance and the Prime Minister (the "Letter"), together with its attached Memorandum of Economic and Financial Policies of the Government of Chad for 2005–07 (the "MEFP") and Technical Memorandum of Understanding (the "TMU") , requesting from the International Monetary Fund as Trustee of the Poverty Reduction and Growth Facility Trust ("the Trustee") a three-year arrangement under the Poverty Reduction and Growth Facility, and setting forth:

(a) the objectives and policies of the program that the authorities of Chad intend to pursue during the three-year period of the arrangement;

(b) the objectives, policies and measures that the authorities of Chad intend to pursue during the first year of the arrangement; and

(c) understandings of Chad with the Trustee regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Chad will pursue for the second and third years of the arrangement.

To support these objectives and policies, the Trustee grants the requested three-year arrangement in accordance with the following provisions, and subject to the provisions applying to assistance under the Poverty Reduction and Growth Facility Trust.

1. (a) For a period of three years from February 16, 2005, Chad will have the right to obtain loan disbursements from the Trustee in a total amount equivalent to SDR 25.2 million, subject to the availability of resources in the Poverty Reduction and Growth Facility Trust.

(b) Disbursements under this arrangement shall not exceed the equivalent of SDR 11.76 million until February 15, 2006, and the equivalent of SDR 18.48 million until February 15, 2007.

(c) During the first year of the arrangement:

(i) the first disbursement, in an amount equivalent to SDR 4.2 million, will be available upon approval of this arrangement at the request of Chad;

(ii) the second disbursement, in an amount equivalent to SDR 4.2 million, will be available on or after September 30, 2005, at the request of Chad, and subject to paragraph 2 below; and

(iii) the third disbursement, in an amount equivalent to SDR 3.36 million, will be available on or after February 1, 2006, at the request of Chad, and subject to paragraph 2 below.

(d) The right of Chad to request disbursements during the second and third years of this arrangement shall be subject to such phasing and conditions as shall be determined. The phasing of, and conditions for, disbursements during the second year of this arrangement shall be determined in the context of the first review of Chad's program with the Trustee as referred to in paragraph 2(I)(c) of this arrangement.

2. Chad will not request

I. the second disbursement and the third disbursement specified in paragraph 1(c)(ii) and 1(c)(iii)above:

(a) if the Managing Director of the Trustee finds that, with respect to the second disbursement specified in paragraph 1(c)(ii), the data as of June 30, 2005, and with respect to the third disbursement, the data as of December 31, 2005, indicate that:

(i) the floor on the primary fiscal base balance of the central government, or

(ii) the ceiling on the total wage bill of the central government, or

(iii) the floor on the stock of restructured domestic debt of the central government,

as specified in Table 2 of the MEFP and in the TMU, is not observed; or

(b) if with respect to the third disbursement, the Managing Director of the Trustee finds that by end-December 2005 Chad fails to (i) prepare and communicate to the Fund an action plan to eliminate verified domestic payment arrears at the Treasury or (ii) create a payroll and civil service roster using the computerized system for the administrative management of civil servants and payroll, as set forth in Table 1 of the MEFP; or

(c) until the Trustee has determined that, with respect to the second disbursement, the first review, and with respect to the third disbursement, the second review, of Chad's program as referred to in the paragraph 7 of the Letter have been completed; or

II. any disbursement under this arrangement if at any time during the period of this arrangement

(a) Chad imposes or intensifies restrictions on payments and transfers for current international transactions, or

(b) Chad introduces or modifies multiple currency practices, or

(c) Chad concludes bilateral payments agreements which are inconsistent with Article VIII, or

(d) Chad imposes or intensifies import restrictions for balance of payments reasons, or

(e) Chad accumulates any external payments arrears as specified in Table 2 of the MEFP and paragraphs 8, 9 and 10 of the TMU, or

(f) the limit on the outstanding stock of external debt with maturity of less than one year by the government as specified in Table 2 of the MEFP and paragraph 7 of the TMU is not observed; or

(g) the limit on the contracting or guaranteeing of nonconcessional external debt with maturities of one year or more by the government as specified in Table 2 of the MEFP and paragraphs 5 and 6 of the TMU is not observed; or

(h) Chad fails to publish and communicate to the IMF the quarterly budget execution report, including detailed information about expenditure commitments, validation, paying orders and cash payments as specified in Table 1 of the MEFP.

When Chad is prevented from requesting disbursements under this arrangement because of this paragraph 2, such disbursements will be resumed only after consultation has taken place between the Trustee and Chad and understandings have been reached regarding the circumstances in which Chad may request further disbursements.

3. In accordance with paragraph 6 of the Letter, Chad will provide the Trustee with such information as the Trustee requests in connection with the progress of Chad in implementing the policies and reaching the objectives of the program supported by this arrangement.

4. During the period of this arrangement, Chad shall remain in close consultation with the Trustee. In accordance with paragraph 6 of the Letter, Chad will consult with the Trustee on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director of the Trustee requests such a consultation. Moreover, after the period of this arrangement and while Chad has outstanding financial obligations to the Trustee arising from loan disbursements under this arrangement, Chad will consult with the Trustee from time to time, at the initiative of the Government or whenever the Managing Director of the Trustee requests consultation, on Chad's economic and financial policies. These consultations may include correspondence and visits of officials of the Trustee to Chad or of representatives of Chad to the Trustee.

N'Djamena, February 4, 2005

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Rato:

1. Over the past 10 years, the government of Chad has been implementing economic and financial policies as well as structural reforms, all designed to strengthen Chad's economic and social fabric, to improve growth prospects, and reduce poverty. The government has been supported in these efforts by the IMF through successive arrangements under the Poverty Reduction and Growth Facility (PRGF), the most recent of which ended on January 6, 2004.

2. The implementation of Fund-supported programs has enabled Chad to make real progress in many economic areas. Nonetheless, as the ex post assessment of performance under these programs revealed, Chad still has many challenges to address before it can achieve a sustainable and lasting reduction in poverty.

3. As the petroleum era commences in Chad, one of the challenges facing the country is to strengthen fiscal management, transparency, and governance to ensure that oil revenues are well managed and can contribute to the achievement of the objectives set out in the poverty reduction strategy adopted by the government in June 2003. This strategy underpins the economic and financial policies contemplated in the medium-term program described in the memorandum of economic and financial policies (MEFP) attached to this letter. The MEFP also sets forth the objectives and policies that the government intends to pursue in 2005. The technical memorandum of understanding that lays out concepts and definitions relating to elements of Fund conditionality, as well as data reporting requirements under the program, is also attached.

4. In support of its medium-term program, the government of Chad hereby requests a new three-year arrangement under the PRGF in a total amount of SDR 25.2 million (equivalent to 45 percent of Chad's quota). The government also requests that the first disbursement under the arrangement, in an amount equivalent to SDR 4.2 million, be made available following the approval of the new PRGF arrangement by the Fund Executive Board.

5. The government also requests an additional interim assistance of SDR 1.375 million under the enhanced HIPC Initiative to cover 13.2 percent of principal obligations falling due to the Fund between March 1, 2005 and December 30, 2005. It understands that this assistance is provided on the condition that on the basis of information provided by Chad, it

has met (i) all of the performance criteria that have been found to have been met with respect to the fifth, seventh, and eighth disbursements under the Poverty Reduction and Growth Facility (PRGF) arrangement of Chad that expired on January 6, 2004, and (ii) all of the conditions specified in the decisions completing the third, fourth, and fifth reviews under the PRGF arrangement that expired on January 6, 2004.

6. The government of Chad believes that the policies and measures set forth in the attached MEFP are adequate to achieve the objectives of the program to be supported by the new PRGF arrangement. Nonetheless, it stands ready to take any further measures that may become necessary. Moreover, the government of Chad will continue to consult with the Fund on its macroeconomic policies, in accordance with Fund policies on such consultations, and to provide the Fund with the information it needs to assess Chad's progress in implementing the economic and financial policies described in the MEFP.

7. The government will conduct, with the Fund, the first review under the new PRGF arrangement no later than September 30, 2005. The review will be based on quantitative performance criteria and indicative targets at end-June 2005 and the relevant structural performance criteria and benchmarks through end-September. The second review under the program will be completed no later than February 1, 2006. In the context of discussions for the first review under the program, the government will specify its policies and objectives for the second year under the PRGF-supported program.

8. The government of Chad hereby authorizes publication of the memorandum of economic and financial policies and the associated IMF staff report, including on the Fund website, with a view to providing broad dissemination.

Sincerely yours,

/s/
Ngueyam Djaibe
Minister of Economy and Finance

/s/
Pascal Yoadimnadji
Prime Minister

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Memorandum of Economic and Financial Policies of the Government of Chad for 2005–07

I. Introduction

1. **This memorandum sets out the medium-term macroeconomic objectives and policies of the government of Chad** that could be supported by the IMF through an arrangement under the Poverty Reduction and Growth Facility (PRGF) covering 2005–07. These objectives and policies are guided by the Poverty Reduction Strategy Paper (PRSP) adopted by the government in June 2003.

II. Recent Developments and Reform Implementation in 2004

2. **Real GDP growth in 2004 is estimated at 31 percent, up from 11.3 percent in 2003, mainly on account of the coming onstream of oil production in July 2003.** Available data indicate that non-oil GDP growth slowed to 1.9 percent, compared with 3.5 percent in 2003, because of a decline in cotton and cereal production; the decline in cereal production is partly due to the infestation by desert locusts. Furthermore, private sector activities were hampered by an accumulation of treasury arrears in 2003–04. The government has decided to raise cotton producer prices by 18.8 percent, to CFAF 190 per kilogram, as an incentive to increase production for the next crop year.

3. **The consumer price index declined by 4.8 percent in 2004,** reflecting the sharp increase in the food supply during the previous crop year and the appreciation of the euro. Nonetheless, inflationary pressures persisted in areas receiving refugees from Darfur. The authorities have appealed to the international community for humanitarian assistance to protect both local populations and refugees in these areas.

4. **The external current account deficit (excluding official transfers) has continued to strengthen, narrowing from 41.8 percent of GDP in 2003 to an estimated 19.4 percent of GDP in 2004.** This strengthening is due to the increase in oil exports as well as the sharp drop in imports since the development of the oil field and the Chadian part of the Chad-Cameroon pipeline were completed. At the same time, Chad's terms of trade improved by 22½ percent in 2004, mainly as a result of the increase in cotton and oil prices. The overall balance of payments recorded a surplus equivalent to ½ of 1 percent of GDP in 2004.

5. **Implementation of the 2004 budget was impeded by shortfalls in non-oil revenue and external budget support, resulting in expenditure compression and an accumulation of payments arrears.** The non-oil primary base deficit is estimated to have stabilized at about 3 percent of non-oil GDP, while the overall deficit (on a commitment basis, excluding grants) is estimated at 9.9 percent of non-oil GDP, financed with budgetary aid and debt relief under the HIPC Initiative.

6. **Government revenue is estimated at 14.5 percent of non-oil GDP in 2004, mainly on account of increased oil revenue.** Non-oil revenue is estimated to have increased by

9 percent in 2004, which is below target because of delays in the implementation of revenue-enhancing measures and weaker-than-anticipated economic activity in the non-oil sector.

7. **Total expenditure (excluding expenditure financed with earmarked oil revenue) was scaled down substantially to compensate for the lower-than-anticipated budgetary resources. Spending dropped from 26 percent of non-oil GDP in 2003 to 24.4 percent in 2004.** Expenditure cuts covered mostly goods and services, transfers, and domestically financed investment. The wage bill increased slightly to 5.8 percent of non-oil GDP, reflecting recruitment in priority sectors as well as wage increases for teachers and health workers. Spending in priority sectors is estimated to have increased to CFAF 78.4 billion, 20 percent more than in 2003.

8. **Further domestic payment arrears were accumulated in 2004, bringing the stock of domestic debt at end-2004 to CFAF 205 billion (14.8 percent of non-oil GDP),** with the following composition:

a. Unpaid payment orders outstanding at the treasury at end-2003 amounting to CFAF 65 billion (4.7 percent of non-oil GDP).

b. The stock of restructured debt totaling CFAF 116 billion (8.4 percent of non-oil GDP). The verification of these claims was completed in mid-2004 and understandings on a repayment schedule were reached with some creditors.

c. Payment arrears accumulated in fiscal year 2004 amounting to CFAF 24 billion (1.7 percent of non-oil GDP) at end-September.

9. **Monetary developments reflect a substantial increase in net foreign assets. Broad money is estimated to have increased by 6.7 percent at end-December,** while credit to the economy increased only slightly, consistent with the low level of economic activity. Net credit to the government dropped by 11.0 percent relative to beginning-of-period broad money, reflecting a buildup of deposits related to oil revenue. The financial health of the banking system remains generally sound, with most banks complying with the main prudential ratios of the regional banking supervision body (COBAC), which carried out two on-site inspections in Chad in 2004.

10. **Chad made progress in implementing structural reforms in 2004.** In the area of transparency and governance the following measures were implemented: publication and dissemination of the 2003 Budget Law; publication on the Auditor General's website of its report on the audit of the use of HIPC funds between May 2001 and May 2002; publication of the procedural manual of the oil revenue oversight board; adoption and publication of an action plan to further improve customs services; completion and publication on the Auditor General's website of its report on the execution of the 2002 Budget Law; adoption and publication of implementation decrees for the new procurement code; and establishment of a budget discipline court in charge of enforcing civil servants' accountability.

11. **In the oil sector, most of the institutional arrangements for the management of oil revenues were put in place, and a timetable was prepared for the remaining components, most of which relate to the oil revenues allocated to the Fund for Future Generations (FFG).** In the meantime, a separate account was opened with Citibank. Each time funds are credited to the main oil revenue account at Citibank, the portion allocated to the FFG will be transferred to the FFG sub-account. The government also decided that future oil revenues would be managed in the spirit of the Law on Petroleum Revenue Management (LPRM) (001/PR/99), based on the following principles:

- All future revenues will be budgeted and used primarily to finance additional spending in priority sectors, in accordance with the objectives of the PRSP and the National Strategy for Good Governance. Another share of these revenues will be allocated to oil-producing regions, to future generations, and to vulnerable groups.

- Revenues from oil fields will be deposited in a separate account opened with an offshore bank or with the Central Bank of Central African States (BEAC), to facilitate monitoring.

- A supervisory mechanism similar to the one created by Law 001/PR/99, namely, the Oil Revenue Control and Supervision Board (CCSRP), will be instituted.

12. **The cotton sector continues to experience many problems.** Sectoral reform actions taken in 2004 include organizing workshops for producers and potential investors and the selection of two scenarios for the privatization of the cotton company (Cotontchad), which were discussed at the workshops.

13. **A good number of measures were taken in 2004 to strengthen expenditure management and transparency.** The computerization of the expenditure circuit, which enables the monitoring of budget execution along the expenditure chain, was completed. In addition, the management of the externally funded capital budget has been transferred to the Ministry of Economy and Finance. To monitor budget execution more closely during the second half of 2004, a treasury cash-flow table was prepared and updated monthly. Also, to avoid re-emergence of arrears to the Fund, Chad set up a mechanism through which Chad's SDR holdings account will be used to repay the Fund. Progress has been made in preparing the strategy for provision of information. Finally, on civil service reform, the government has adopted an action plan for implementing the recommendations of an audit report of the nine pilot ministries and has decided to use the SYGASPE software to establish an integrated system for the administrative and financial management of the civil service.

III. The Economic Program of the Government

A. Medium-Term Program Outlook

14. **The medium-term economic program is guided by the government's PRSP, which defines six pillars:** (i) promoting good governance, (ii) ensuring strong and sustained

growth, (iii) developing human capital, (iv) improving the living conditions of vulnerable groups, (v) restoring and safeguarding ecosystems, and (vi) monitoring and periodically evaluating PRSP implementation. The Medium-Term Expenditure Framework (MTEF), prepared for 2005–07 for priority sectors, is an important tool that will help establish the linkage between the objectives of the PRSP and the effective use of budget resources.

15. **The government's economic program for the next five years emphasizes macroeconomic policies and structural reforms that will help maintain a stable macroeconomic environment conducive to private sector development and investment.** During 2005–07, growth in the non-oil sector should rise to about 5.5 percent on average. Reforms in the energy and cotton sectors, as well as the increased investment in infrastructure, should pave the way for important productivity gains in the non-oil sector. According to available information, growth in the oil sector will reach some 27 percent in 2005 and decline in 2006–07, mainly because production from the Doba oil fields will stabilize and the medium-term framework does not take into account new investments for prospective oil fields.

16. **Strengthening fiscal management will be central to achieving the medium-term goals.** To that end, the government intends to improve its collection of non-oil revenue through measures to combat tax evasion, improve efficiency in the revenue-collecting agencies, and streamline tax exemptions. These measures will progressively increase the revenue-to-GDP ratio to 10.7 percent of non-oil GDP in 2007. This level of revenue, along with the expected budgetary assistance, will allow the government to meet its commitments to domestic and external creditors.

17. **The government is committed to increase poverty reducing spending and make progress towards the Millennium Development Goals through the use of oil resources and debt relief provided under the HIPC Initiative.** To achieve this target, the government will continue to manage oil revenue effectively and transparently, in accordance with the LPRM 001/PR/99, which regulates its use. The government will also ensure that fiscal policy is sustainable in the medium term and that increases in spending reinforce macroeconomic stability. Furthermore, it will continue to provision the stabilization account to prevent volatility in international oil prices from causing erratic fluctuations in expenditure and from hampering the achievement of program objectives, particularly those relating to poverty reduction.

18. **The implementation of the LPRM in 2004 brought to light a number of shortcomings to the earmarking scheme,** including lack of flexibility in cash management and increased fragmentation of budget management systems. This seems to indicate that the LPRM scheme needs to be reviewed. The government believes, nonetheless, that a year or two of implementation is needed to gather experience and complete the work currently underway on the codification of poverty reducing spending, with assistance from the World Bank.

B. Economic Program for 2005

19. **In the context of the medium-term macroeconomic targets outlined above, the economic program for 2005 focuses on strengthening fiscal management and transparency and on addressing impediments to growth.** To this end, the government plans to give new impetus to its structural reform program, enhance non-oil revenue collection, and strengthen public expenditure management. The government also intends to complete the institutional arrangements pertaining to the management of oil revenues.

20. **Economic growth is expected to accelerate in 2005, spurred by oil-related activities and the recovery in cotton production.** Furthermore, increased public sector investment will benefit industry and services activities. The program for 2005 envisages a growth rate of 6.4 percent for non-oil GDP and an inflation rate of 3 percent. The external current account deficit (excluding official transfers) is expected to improve further to 8.4 percent of GDP.

Fiscal Policy

21. **Fiscal policy in 2005 will be geared toward reinforcing macroeconomic stability.** The non-oil primary base deficit will be contained at 6.5 percent of non-oil GDP. This represents a widening of 3.1 percent of non-oil GDP, resulting mainly from the increase in spending in priority sectors. The overall budget deficit (on a commitment basis, excluding grants) is expected to reach 11.2 percent of non-oil GDP. It will be financed with external budgetary assistance, including debt relief under the HIPC Initiative. In the event of lower-than-expected budget resources, nonpriority expenditure will be scaled down to avoid an accumulation of payments arrears.

22. **Total revenue is expected to reach 19.2 percent of non-oil GDP in 2005, compared with 14.5 percent in 2004.** Non-oil revenue is expected to increase slightly to 10 percent of non-oil GDP in 2005. To strengthen revenue collection, the government has decided to improve efficiency in the tax and customs administrations by increasing their human resources and computerization. It also plans to (i) enhance coordination and the sharing of information about taxpayers between the customs and tax departments; (ii) improve the use of the import preshipment inspection certificate issued by the inspection agency BIVAC; and (iii) computerize the exemptions granted by both product and beneficiary, and improve the ex post controls of exemptions by both the customs and tax departments. Starting in March 2005, the customs and tax departments will each produce a quarterly report analyzing trends in exemptions. The reports will specify the beneficiary of each exemption, the exempt product, and the legal grounds for the exemption.

23. **Total expenditures are budgeted to increase by 36 percent in 2005.** This sharp rise primarily reflects spending in priority sectors that is financed with earmarked oil revenue and, more specifically, investment. Overall, poverty reducing expenditure will reach CFA 156 billion, equivalent to 10.4 percent of non-oil GDP. The wage bill will be capped at CFAF 87.7 billion (5.9 percent of non-oil GDP). This amount includes civil service and

military wages, as well as new hiring estimated at 2,931 people, 2,625 of whom will be in the priority sectors. The government will not grant a general wage increase for the civil service in 2005. In the army, the government plans to replace the current system of lump-sum salary payments with a pay scale graduated by rank and seniority and to sharply pare supplementary allowances. The implementation of this reform accounts for the planned 8 percent increase in the military wage bill.

24. **Efforts to settle domestic debt will continue in 2005.** Payments on restructured debt will total CFAF 14.3 billion, based on restructuring arrangements reached with some creditors (See Appendix I, Table 2). Full elimination of arrears accumulated in 2004 will depend on resources available in 2005. The current framework programs the settlement of CFAF 14.8 billion (about 1 percent of non-oil GDP) out of CFAF 24 billion estimated at end-September. As for the stock of unpaid treasury arrears at end-2003, it will be inventoried and verified, and an action plan for the elimination of these arrears will be prepared by end-December 2005. The government intends to request financial support from donors for the implementation of the action plan.

Monetary Sector Issues

25. **Broad money is expected to grow in line with non-oil GDP in 2005.** Credit to the economy is projected to expand by 10 percent, reflecting the expected recovery in economic activity. At the same time, net credit to the government is projected to decline by 20 percent relative to beginning-of-period broad money, reflecting the buildup of deposits related to oil revenue, and the scheduled reduction in liabilities to the banking system. Chad's statutory advances from the BEAC will increase in 2005 when oil revenue is included in the calculation of the annual ceiling. The government intends to use this additional margin to pay off CFAF 14 billion in costly exceptional advances granted by the BEAC in 2003-04.

Structural Reforms, Public Expenditure Management, and Governance

26. **The government is committed to push ahead with reforms in the cotton sector, notably through the implementation of measures agreed upon** with the World Bank under the Institutional Reform Support Credit (IRSC). The government plans to have consultations with the World Bank and other donors on the cotton sector crisis in early 2005. Based on the outcome of these consultations, the government will prepare a strategy for the cotton sector and a timeschedule for the privatization of Cotontchad. In this context, the government will take into account feedbacks from workshops organized for producers and potential investors on the privatization of Cotontchad, and specify measures to resolve the financial difficulties facing the company, with a view to determining the timeschedule for the elimination of subsidies currently granted to Cotontchad. The government will discuss key aspects of the cotton sector reform strategy with Fund staff at the time of the first review of the program and seek to reach understandings on measures to be included in Fund conditionality. The government plans to take the following actions during 2005–06:

- Select of the final privatization scenario for Cotontchad. Two scenarios (sale of equities or sale of ginneries) were selected out of nine, and were discussed at the investors and producers' forums held, respectively, in September and October 2004.
- Complete the ex-ante qualitative Poverty and Social Impact Analysis (PSIA). The first stage of the qualitative analysis and the quantitative analysis have already been completed.
- Address Cotontchad's financial situation: the government and Cotontchad agreed on the settlement of reciprocal debt in 2004. Issues to be addressed include deciding how to rehabilitate the company or how to assume the company's debts, depending on the choice of privatization scenario.
- Specify the institutional framework for the cotton sector after privatization is completed, including market regulation and access to credit.
- Complete a study on options to engage the private sector in cotton activities.
- Clarify the producer price-setting mechanism.
- Strengthen producers' organizations by reviewing the performance of the local coordination committees and continue the dissemination campaign on the selected scenario for reform.
- Train cotton farmers on production and selling techniques and inform them about market conditions and inputs.
- Improve the rural road network in cotton-producing areas.
- Prepare bidding documents and launch tender for bids for the privatization of Cotontchad.
- Launch an ex-post PSIA after privatization of Cotontchad.

27. **In the energy sector, the government's reforms focus on increasing production and addressing financial difficulties facing the water and power company (STEE).** To increase capacity in the short run, the government has decided both to recondition old generators and to purchase three new ones to meet existing demand. However, this strategy is likely to cause STEE's financial situation to deteriorate because the generators operate with expensive fuel, with average costs estimated at CFAF 300 per kilowatt hour, while the average electricity tariff is CFAF 170 per kilowatt hour. Strategies providing for smaller increases in output but at lower average cost are being considered, with assistance from the World Bank. In the medium term, the government plans to build a new power plant at Farcha, financed with a concessional loan from the Islamic Development Bank. The plant is meant to reduce Chad's dependence on high-cost diesel fuel. Oil from the Sédigui field near Lake Chad could be used to supply the new facility. However, it will take several years to complete this project. In the interim, three options are being contemplated: (i) use Doba crude oil, (ii) use the light fraction of Doba oil produced from a topping plant; or (iii) use gas field condensate. On the financial situation of STEE, an action plan to improve its

performance is under way with assistance from the World Bank. It entails lowering production costs, controlling the use of diesel by limiting production from old and inefficient generators, improving marketing procedures, and freezing investment until production costs have been lowered substantially.

28. **The government will continue its efforts to strengthen expenditure and cash-flow management.** In this context, it plans to request additional technical assistance from the IMF to prepare the implementation of measures recommended by the October 2004 Fiscal Affairs Department (FAD) mission, to strengthen budgetary procedures and address the fragmentation of cash management through the setting of a treasury single account. During the first review of the program, the government will discuss the specific timing for the implementation of these measures by end-2005. A treasury cash-flow plan to be updated monthly was prepared for 2005. It will be one of the key components for fiscal management. Other measures, to be pursued in the context of the World Bank lending operations, include the computerization of Administrative and Financial Directorates (DAFs) of line ministries, the connection of priority ministries to the Integrated Financial Management Information System, the codification of poverty-reducing spending, the submission of administrative and management accounts for 2004 to the Auditor General's office, and the submission to parliament of the 2004 settlement law. Based on lessons learned from preparing MTEFs for priority sectors for the past two years, the government will take the measures needed to improve the quality of the MTEF and link it more closely with the objectives of the PRSP. The government will prepare the updated MTEF for 2006–08 in consultation with Fund and Bank staff, so that it can be adopted by the Council of Ministers by end-September 2005. One key measure in this regard is building the administrative capacity of the DAFs. In the event, a comprehensive action plan incorporating donors' recommendation in the fiscal area is under preparation in collaboration with the World Bank. The government has also prepared, in consultation with IMF staff, a medium-term macroeconomic framework that will facilitate multiyear budget programming to serve as a basis for updating the MTEFs for 2006–08.

29. **Other measures to strengthen good governance and transparency in resource management include the strengthening of the public procurement system,** notably through the recruitment of qualified personnel and the provision of training needed to ensure that the new procurement code is properly implemented. In particular, the Committees for Opening and Assessing Bids (COJO) and the pre-selection subcommittees will be established during 2005, the update of the 2000 civil service census and the strengthening of personnel management through the computerization of the payroll and personnel management systems by end-2005.

30. **In the oil sector, the publication of quarterly reports prepared by the CCRSP will continue, and the investment strategy for the resources allocated to the FFG will be finalized by end–June 2005.** The government has also decided to adhere to the Extractive Industry Transparency Initiative (EITI). A working group will be set up by May 2005 to prepare the required actions for implementing the EITI; it will be responsible, in particular,

for analyzing the procedures for publishing data and the legal obligations of stakeholders and for preparing an action plan to effectively implement the provisions of the EITI by end-2005.

HIPC Initiative and PRSP Implementation

31. **Cognizant of the substantial budgetary support that Chad will receive through debt relief at the completion point under the HIPC Initiative, the government will work to implement the necessary structural measures to reach the completion point in 2005.** To date, it has taken a large number of structural measures and made substantial progress in the health, education, and infrastructure sectors. Moreover, the first PRSP progress report was completed in late December 2004. The progress report complements the PRSP by providing a review of specific measures needed to achieve the PRSP objectives and highlights important issues for poverty reduction that received insufficient attentions in the original document.

Program Monitoring

32. **Progress in program implementation will be evaluated on a quarterly basis using the quantitative and structural measures indicated in Tables 1 and 2 of the Appendix.** IMF staff will conduct two annual reviews of the program with the government to evaluate its implementation based on the results at end-June and end-December 2005. The first review should be concluded by the IMF Executive Board by end-September, 2005. It will focus on measures aimed at improving budgetary procedures and cotton sector reforms. The second review will be completed no later than February 1, 2006.

33. **A technical committee has been set up in the Ministry of Economy and Finance to monitor the implementation of the program.** This committee, which will be operational by end-February 2005, will also be responsible for consolidating and regularly disseminating macroeconomic and financial information. In particular, it will prepare and publish a quarterly report on budget execution, using data from the computerized table covering the four stages of the expenditure circuit. The first report on budget execution at end-March 2005 should be communicated to the Fund by May 1, 2005.

Table 1. Chad: Prior Actions, Structural Performance Criteria, and Structural Benchmarks, January 1, 2005–December 31, 2005

Measures	Expected Date of Implementation
Prior Actions	
Clearance of all arrears on nonreschedulable external debt.	Observed
Completion of the computerization of the expenditure execution system.	Observed
Preparation of a monthly cash-flow plan for 2005 to be updated monthly.	Observed
Creation of a unit in the Ministry of Economy and Finance to monitor the reform program.	Observed
Establishment of an automatic mechanism for the use of Chad's SDR holdings account for the payment of obligations to the Fund.	Observed
Performance criteria	
Publication and communication to the IMF of the quarterly budget execution report, including detailed information about expenditure commitments, validation, payment orders, and cash payments.	Continuous, starting May 1, 2005
Preparation and communication to the IMF of an action plan to eliminate treasury verified domestic payment arrears (MEFP, para 24)	End-December 2005
Creation of a payroll and civil service roster using the computerized system for the administrative management of civil servants and payroll, and based on the results of the civil service census scheduled for end-November 2005.	End-December 2005
Structural benchmarks	
Adoption by the Council of Ministers of the investment strategy for oil revenue allocated to the Fund for Future Generations.	End-June 2005
Adoption by the Council of Ministers of the medium term expenditure framework for all priority sectors (health, education, rural development, basic infrastructure and environment) for 2006–08, prepared in consultation with the Fund and the World Bank, and consistent with the Poverty Reduction Strategy Paper.	End-September 2005
Publication of quarterly reports prepared by the Oil Revenue Control and Surveillance Board on the collection, allocation, and use of oil revenue.	Continuous

Table 2. Chad: Quantitative Performance Criteria and Indicative Targets for the Period January 01, 2005 – December 31, 2005 1/
(In billions of CFA francs; Cumulative Changes from the beginning of the Calendar Year, Unless Otherwise Indicated)

	End-Dec 2004	Cumulative Changes from the Beginning of the Calendar Year, unless otherwise indicated			
		End-March 2005	End-June 2005	End-Sep 2005	End-Dec. 2005
		Indicative Targets	Performance criteria	Indicative Targets	Performance criteria
		Program	Program	Program	Program
A. Quantitative performance criteria and indicative targets					
Floor on primary fiscal base balance, excluding oil revenue 2/	...	-19.3	-44.4	-80.8	-97.7
Ceiling on total wage spending (including military)	...	21.9	43.9	65.8	87.7
Stock of restructured domestic debt 3/	115.7	114.3	112.1	110.8	101.3
B. Continuous quantitative performance criteria					
Nonaccumulation of external payments arrears of the central government 4/	...	0.0	0.0	0.0	0.0
Central government's contracting or guaranteeing of new nonconcessional external debt with maturities of more than one year 5/	...	0.0	0.0	0.0	0.0
Central governments' outstanding stock of external debt with a maturity of up to and including one year, except normal trade financing	...	0.0	0.0	0.0	0.0
C. Indicative targets					
Total revenue 6/	...	64.0	134.8	209.8	287.1
Oil		30.5	63.6	101.2	136.8
Non oil		33.5	71.1	108.6	150.2
Memorandum items:					
Repayments on restructured domestic debt 3/	...	1.4	3.6	4.9	14.3
Budgetary aid (excluding from the Fund)	...	13.1	13.1	30.8	30.8
Debt relief (including HIPC Initiative assistance)	...	2.6	5.0	6.7	9.1

Sources: Chadian authorities; and staff projections.

1/ Performance criteria for program indicators under A and B; indicative targets otherwise.

2/ The primary base balance is the difference between total revenue and total expenditure, excluding interest on domestic and external debt and externally financed investments.

3/ Restructured domestic debt refers to BEAC, Contonchad, CNPS, CNRT, ASECNA, CBT, "France Cable et Radio", Alcatel, subscriptions, contributions to international organizations, arrears on rents and legal commitments.

4/ Excluding external payments arrears incurred pending debt rescheduling.

5/ Excluding debt relief obtained in the form of rescheduling or refinancing.

6/ Excluding revenue from the privatization of public enterprises and from the concession of exploitation or exploration permits of oil fields.

Technical Memorandum of Understanding
On Concepts, Definitions, and Data Reporting
Under Chad's PRGF-Supported Program

February 4, 2005

1. The purpose of this technical memorandum of understanding (TMU) is to describe the concepts and definitions that will be used in monitoring the implementation of the program supported by the International Monetary Fund (IMF) under the Poverty Reduction and Growth Facility (PRGF). The memorandum also describes the adjusters that will be applied to certain quantitative performance criteria of the program and sets out the data-reporting requirements for monitoring program implementation.

The primary base balance

2. The primary base fiscal balance is defined as total government revenue minus primary base expenditure on a commitment basis. Total government revenue is defined as tax revenue plus nontax revenue plus oil revenue, minus proceeds from the taxation of public contracts, minus sales of assets. Oil revenue is defined as royalties plus dividends paid by oil companies. Primary base expenditure is defined as total expenditure, less externally-financed investment, less interest payments on domestic and external debt.

The wage bill

3. The government wage bill is defined as the sum of wages and remunerations, allowance, bonuses, and contributions to the pension fund paid for the calendar year to all state employees, civilian and military.

Stock of restructured domestic debt

4. For program purposes, the outstanding restructured domestic debt covers the government's liabilities to domestic creditors identified in the inventory of domestic debt completed in July 2004. These liabilities have been in arrears and were restructured under conventions signed with creditors, indicating repayment terms.

New nonconcessional external debt contracted or guaranteed by the government with a maturity of more than one year

5. This performance criterion applies not only to "debt" as defined in point No.9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) August 24, 2000) but also to commitments contracted or guaranteed by the Republic of Chad for which value has not been received.

6. The government will not contract or guarantee external debt with an original maturity of one year or more with a grant element of less than 35 percent, calculated using currency-specific discount rates based on the Organization for Economic Cooperation and Development (OECD) commercial interest reference rates. This performance criterion will be assessed on a continuous basis.

Stock of short-term external public debt outstanding

7. The government will not contract or guarantee external debt with an original maturity of less than one year. The term debt will have the meaning set forth in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) August 24, 2000). Short-term and import-related trade credits are excluded from this performance criterion. This performance criterion will be monitored on a continuous basis.

Arrears on external debt

8. The government undertakes not to incur payments arrears on external debt that it owes or guarantees, with the exception of external payments arrears arising from government debt that is being renegotiated with creditors, including Paris Club creditors. This performance criterion will be assessed on a continuous basis.

9. Arrears on external debt are defined as any unpaid obligation on the contractual due date. In cases where a creditor has granted a grace period after the contractual due date, arrears are incurred following the expiration of the grace period.

10. For the purpose of program monitoring, the government undertakes to consult with the Fund before contracting or guaranteeing an external loan for which an assessment of the grant element is required.

Data reporting

11. The authorities undertake to provide monthly and quarterly data needed to assess the attainment of program quantitative targets as well as macroeconomic developments. Detailed information on the following indicators will be provided to the Fund monthly, within 30 days: (i) oil and non-oil revenue by category, (ii) proceeds from sales of assets, and (iii) capital spending by source of financing (domestic or external).

12. Budget execution tables showing commitments, payment orders, liquidations, and payments will be provided to the Fund monthly, three weeks after the end of each month.

13. Detailed information on repayment of domestic arrears will be provided to the Fund monthly, within 30 days of the end of each month.

14. Tables showing external debt-service payments actually made during the previous month and expected to fall due during the following two months will be provided to the Fund monthly within a week of the end of each month. These tables should also show the amount of HIPC assistance or debt rescheduling received and transfers of HIPC assistance to the HIPC account at the BEAC made during the previous month and expected to fall due during the following two months, as well as arrears to the HIPC account.

15. Detailed information on new loans contracted or guaranteed by the government will be communicated to the Fund within 30 days of the completion of the transaction.

16. Provisional monetary data prepared by the BEAC will be provided to the Fund monthly within 45 days of the end of the month. Data on net credit to the government will be provided to the Fund monthly, within 30 days of the end of each month.

End notes

17. The definition of debt set forth in Point 9 of the guidelines reads as follows: "(a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract.

18. Debts can take a number of forms, the primary ones being the following:

- Loans: advances of money to an obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyer's credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements).

- Supplier's credits: contracts under which the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided.

- Leases: arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the leaser retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property.

- Under the definition of debt set out in Point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (payment on delivery) will not give rise to debt.

CHAD: RELATIONS WITH THE FUND
(As of December 31, 2004)

I. Membership Status: Joined 7/10/63; Article VIII

II. General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	56.00	100.00
Fund holdings of currency	55.72	99.50
Reserve position in Fund	0.28	0.50

III. SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	9.41	100.00
Holdings	0.04	0.45

IV. Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
ESAF and PRGF arrangements	61.78	110.32

V. Financial Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR million)**	**Amount Drawn (SDR million)**
Poverty Reduction and Growth Facility (PRGF)	01/07/00	01/06/2004	47.60	42.40
Enhanced Structural Adjustment Facility (ESAF)	09/01/95	04/30/1999	49.56	49.56
Stand-By Arrangement	03/23/94	03/22/1995	16.52	10.33

VI. Projected Obligations to Fund

(without HIPC Initiative assistance; SDR million; based on existing use of resources and present holding of SDRs):

	Forthcoming				
	2005	2006	2007	2008	2009
Principal	10.43	10.59	9.69	8.84	8.23
Charges/interest	0.49	0.44	0.39	0.34	0.30
Total	10.93	11.04	10.08	9.18	8.52

VII. Implementation of HIPC Initiative:

	Enhanced Framework
Commitment of Heavily Indebted Poor Countries (HIPC) Initiative assistance	
Decision point date	May 2001
Assistance committed (NPV terms)	
Total assistance (US$ million)	170.00
Of which: Fund assistance (SDR million)	14.25
Completion point date	Floating
Delivery of Fund assistance (SDR million)	
Amount disbursed	7.18
Interim assistance	7.18
Completion point	0.00
Amount applied against member's obligations (cumulative)	7.18

VIII. Safeguards Assessments:

The Bank of the Central African States (BEAC) is the regional central bank of the Central African States, of which Chad is a member. A safeguards assessment of the BEAC completed on August 30, 2004, found that the BEAC has implemented a number of measures to strengthen its safeguard framework since the 2001 safeguards assessment, but further progress needs to be made in key areas.

The main recommendations of the assessment, applicable to the BEAC as an institution, include (i) preparation of financial statements in full accordance with an internationally recognized accounting framework, initially the ECB guidelines; (ii) publication of the BEAC's full financial statements, together with the auditor's report, starting with the 2003 financial statements; (iii) formulation of Board-approved formal guidelines under which the BEAC governor is authorized to make exceptional advances to BEAC member countries; (iv) annual review by the BEAC internal audit department of the process of program data reporting of member countries to the IMF; (v) implementation of a risk-based audit approach, and finalization of a charter, for the internal audit function; and (vi) systematic follow-up of all recommendations pertaining to the BEAC's system of internal controls to be coordinated by the internal audit department, with regular reporting to the Audit Committee and the BEAC governor.

Other priority recommendations of the assessment, but of a country-specific nature, were: (i) the BEAC should clarify with its member countries that hold foreign reserves outside the BEAC the statutory basis and circumstances for doing so, to avoid an apparent conflict with the BEAC statutes and to ensure full transparency of reporting of reserves by the member country; (ii) the BEAC and its member states are encouraged to establish a mechanism to prevent overdue payment to the Fund and facilitate timely payments through advance acquisitions of SDRs and an authorization to debit the SDR account of the member; and (iii) the BEAC should cooperate with its members to reconcile and confirm the treasury balances to ensure that the balances reported by the BEAC in respect of credit to government as reflected in the accounts of the Treasuries are in agreement with the BEAC.

IX. Exchange Rate Arrangement

Chad is a member of the BEAC. The exchange system common to all members of the BEAC has been free of restrictions on payments and transfers for current international transactions. The BEAC common currency is the CFA franc, which was formerly pegged to the French franc. Repurchase of the CFA franc banknotes exported outside the BEAC was suspended on August 2, 1993. Effective January 12, 1994, the CFA franc was devalued by 50 percent in foreign currency terms, and the exchange rate was adjusted from F 1 = CFAF 50 to F 1 = CFAF 100. Since January 1, 1999, the CFA franc has been pegged to the euro at the fixed rate of EUR 1 = CFAF 655.97. On January 24, 2005, the rate of the CFA franc, in terms of the SDR, was CFAF 764.77 = SDR 1.

X. Article IV Consultations

The last discussions for the 2003 Article IV consultation were held in N'Djaména during the period October 29–November 11, 2003. The staff report (IMF Country Report No. 04/111) was discussed by the Executive Board on March 19, 2004. The next consultation discussion would take place on the 12-month cycle.

XI. Financial Sector Assessment Program (FSAP) Participation, Report on the Observances of Standards and Codes (ROSCs), and Offshore Financial Center (OFC) Assessments:

Not applicable for Chad.

XII. Resident Representative

Mr. Camard is the Fund resident representative in N'Djaména since September 2004.

Chad: Relations with the World Bank Group

I. Partnership in Chad's Development Strategy

1. Chad's Poverty Reduction Strategy Paper (PRSP) was formally endorsed by the Boards of the World Bank and the Fund on November 13, 2003, and November 17, 2003, respectively. Good governance, sound macroeconomic management, and rapid economic growth are among the five strategic axes of the PRSP. The strategy also underlines the need for strong and sustained growth in the non-oil sector, improved human capital, improved living conditions for vulnerable groups, and preservation of the environment. The Chadian outlook promises to be propitious because of the additional revenues resulting from the exploitation of the oil fields of Miandum, Komé, and Bolobo, which started in July 2003. Oil revenues started to be transferred to Chad from the country's offshore escrow account in London in July 2004.

2. The IMF has taken the lead in the dialogue on macroeconomic and financial stability within the framework of the Poverty Reduction and Growth Facility (PRGF). The last PRGF arrangement which was in place since January 7,2000 expired in January 2004. The Chadian authorities have requested a new arrangement under the PRGF. Structural measures in the new program were coordinated with the World Bank, and structural conditionality was limited to areas with significant macroeconomic implications. Collaboration with the Fund will continue in these areas.

3. Oil provides a major opportunity for Chad to break free of poverty and limited resources, diversify its economy, and increase its fiscal revenues. If well managed, additional revenues from oil can translate into significant poverty alleviation through greater availability of resources for priority sectors, improved basic infrastructure, and enhanced delivery of social services. The ongoing program of reforms of the government is focusing on completing its structural reforms, especially in public finance management; reinforcing institutions, including fiduciary arrangements; strengthening the macroeconomic environment; and clearing the bottlenecks that hinder both private sector activity and public sector delivery of services.

4. Nonetheless, in view of what is sometimes called the "paradox of abundance" and the experience of other oil-producing countries in Africa, petroleum resources also create new risks. Inability to control aggregate demand could lead to inflation, an appreciation of the real exchange rate, and a shrinkage of tradable sectors (including the cotton sector), which could undermine sustained economic growth. These risks are partly mitigated by Chad's membership in the BEAC, a supranational central bank that independently implements monetary policy. There is also the risk that large oil revenues weaken the government's incentive to reform and the leverage of external assistance. To ensure that petroleum revenues do not compromise the country's growth, Chad has set up a unique regulatory and institutional framework for checks and balances on the use of petroleum revenues. Thus, the National Assembly adopted on December 30, 1998, a law on the management of government petroleum revenue (Law no. 001/PR/99) that establishes an oversight committee to monitor

the use of petroleum revenues. This committee, Collège de Contrôle et de Surveillance des Ressources Pétrolières (CCSRP), includes representatives of the government, Parliament, and civil society. The bulk of oil revenue is allocated to priority expenditure for poverty reduction. In addition, 10 percent of these resources (royalties and dividends) are deposited in an account for future generations managed through the BEAC.

II. World Bank Country Assistance Strategy

5. The World Bank's assistance program in Chad is laid out in the Country Assistance Strategy (CAS), which was endorsed by the World Bank Board on December 11, 2003. The CAS supports two key strategic objectives: (i) strengthening governance, including public resource management; and (ii) ensuring inclusive, broad-based growth as the country embarks on oil production. This assistance program is consistent with the key strategic objectives of Chad's PRSP.

6. The World Bank's current portfolio of projects supports (i) capacity building for public expenditure management, management of the petroleum sector, local development, and environmental management; (ii) investments in key sectors for social and economic services (health, education, energy, rural development, and transport); and (iii) the exploitation of Chad's petroleum resources.

7. Support has been approved for key activities proposed by the CAS and its predecessor over the past three years. With respect to the oil sector, the Management of the Petroleum Economy Project, in the amount of US$17.5 million, aimed at building capacity for public financial management, was approved in January 2000. On June 6, 2000, the Executive Board of the World Bank approved the Petroleum Development and Pipeline Project, for which it provided an IBRD loan equivalent to US$39.5 million to the Republic of Chad, as well as US$14.2 million in A-Loans and up to US$42.7 million in B-Loans from the International Finance Corporation to the oil transportation company in Chad. A complementary IDA-funded Petroleum Sector Management Capacity-Building Project, aimed at promoting environmentally and socially sound management of the petroleum sector, was approved simultaneously for US$23.7 million. In the transport sector, a credit of US$67 million in support of the National Transport Program was approved by IDA on October 26, 2000. In the health sector, the Health Sector Support Project in the amount of US$41.5 million was approved in April 2000. A second Population and Aids Project in the amount of $24.6 million was approved by IDA on July 12, 2001. The Critical Electricity and Water Services Project was approved by IDA on October 10, 2002, and the Education Sector Reform Project was approved by IDA on March 18, 2003.The Agricultural Services and Producers Organizations Project was endorsed by the Board on December 11, 2003. Finally, a Local Development Project (US$23 million) was approved by the Board in September 2004.

8. Three quick-disbursing policy reform operations for a total of US$85 million were successfully carried out from 1996 to 1999 in support of the government's structural adjustment program. The current policy dialogue between Chad and the World Bank focuses

on improving transparency and accountability in Chad's public expenditure management and procurement system, notably to ensure appropriate management of oil revenues, so as to ensure that these resources will primarily contribute to achieving the poverty reduction objectives set out in the PRSP. The World Bank also provides support to deepen reforms in the cotton sector; they are designed to disengage the state from the cotton sector and strengthen cotton farmers' organizations, with the objective of increasing farmers' incomes. Thus, a fourth and a fifth Structural Adjustment Credit (US$40 million each) were approved by IDA on December 18, 2001, and March 18, 2003, respectively, to provide support to the three-year program of reforms in these areas. Finally, an Institutional Reform Support Credit (US$25 million) was endorsed by the Board on November 30, 2004.

9. Other projects under preparation for presentation to the Board of Executive Directors in FY05-06 include two capacity-building projects to further strengthen the management of public finance and the petroleum sector. The medium-term lending program also includes support to demobilization and reintegration of armed rebels and soldiers, which would be followed by a PRSC in FY07. An Urban Development Project is also planned to be discussed at the Board in FY05.

10. In addition to these lending activities, the World Bank has been carrying out non-lending activities focusing on critical areas of the program, in particular (i) annual public expenditure reviews since 2002 and a Country Financial Accountability Assessment (2004), (ii) support for the implementation of a medium-term expenditure framework and program budgets in health and education in 2002, which were extended to other priority sectors in 2003 and 2004, and (iii) completion of a public expenditure tracking survey in the health and education sectors (2002). The planned program of nonlending activities includes the continuation of comprehensive public expenditure diagnostic work and technical support, in close collaboration with the IMF and other donors. This will keep the focus of public expenditure reviews on priority sectors and provide analytical support for further implementation of the medium-term expenditure framework. The work also includes further expenditure-tracking surveys in priority sectors starting with a comprehensive health facility survey launched in May 2004 and an evaluation of public expenditure-tracking systems in the rural development sector in FY05. Work is also ongoing on rural development issues (water, cotton). In particular, a Poverty and Social Impact Analysis (PSIA) has been completed in the cotton sector to identify ex ante the impact of reforms on all stakeholders, notably the poor, and to inform the selection of a scenario for the state's disengagement from the cotton sector. A Development Policy Review will provide an in-depth assessment of economic and policy issues and strategic choices for promoting growth and poverty reduction over the medium-term, in line with the PRSP priorities. Finally, a poverty assessment will be carried out in FY06.

11. Institutional development grants have been approved to support capacity building for civil society groups and Parliament. These grants are designed, in particular, to strengthen civil society's ability to play its role in the management of future petroleum revenues.

III. BANK-FUND COLLABORATION IN SPECIFIC AREAS

12. Chad has three principal development challenges: (i) translating petroleum revenues into expenditures for poverty reduction; (ii) maintaining macroeconomic stability and managing carefully the macroeconomic impact of oil revenues; and (iii) promoting growth in the non-oil sectors, especially in rural areas.

13. Policy reforms supported by the Bank through structural adjustment credits focus on two strategic PRSP axes: (i) promoting good governance; and (ii) ensuring strong and sustained growth. Specific objectives are sought in each of the development challenges, including

- Enhancing transparency, accountability, participation and adherence to the rule of law.
- Improving the preparation, execution, ex post monitoring, control, and audit of the budget.
- Making public procurement more efficient and transparent.
- Strengthening the transparency and accountability of the civil service; and
- Strengthening the cotton farmers' organizations and disengaging the state from cotton production; and promoting microfinance institutions.

14. The dialogue pertaining to these areas of policy reforms is conducted with shared responsibility on governance and transparency issues and public finance management, as described in the following two subsections. The Bank leads the dialogue in all other areas, including the cotton sector reform, in close collaboration with the Fund. The Bank also leads the dialogue on the energy sector, in coordination with the Fund. The Fund focuses, in particular, on monitoring the fiscal impact of some key measures of reforms, for example, the increase in the wage bill and government subsidies to Cotontchad and the electricity company.

15. In addition, the Bank has taken the lead in assessing the poverty and social impact of reforms undertaken in the cotton sector, as mentioned above. An ex ante qualitative analysis was carried out in 2002. The government identified a few scenarios for reform in early 2003, and the Bank has been providing support to the government in assessing the poverty impact of each scenario and defining accompanying measures accordingly. Two of the scenarios were selected by the government and discussed at forums with producers and investors in September and October 2004 to prepare for the selection of the final strategy. An ex post analysis will then be conducted through repeated surveys, with the support of the Bank, to allow the government to monitor the reform process and implement measures to mitigate the poverty and social impact of the reform and maximize the gains for the poor.

16. The Bank also provides support for policy reforms in education, health, electricity, water, and transport sectors.

17. Measures under the Bank's current adjustment support for the government's program of reforms are described below. Their satisfactory completion was a prior action for the structural adjustment credit approved in November 2004.

A. Governance

Strengthen Transparency, Accountability, the Rule of Law, and Participation

(i) The 2003 Budget Law has been published and made widely available.

(ii) The report on the audit of the use of HIPC funds between May 2001 and May 2002 and between June and December 2002 have been published on the website of the office of the Auditor General.

(iii) The decree on the role and attributions of CCSRP has been adopted and published, and at least two analysts have been recruited by the CCSRP.

(iv) An action plan to further improve customs services, including reducing the involvement of third parties in customs operations, has been adopted and implementation has been initiated.

(v) The report on the execution of the 2002 Budget Law has been completed and published on the website of the office of the Auditor General.

(vi) A study for a policy on the public disclosure of information has been drafted and reviewed by the *Haute Comité Interministériel (HCI)*.

(vii) A survey on users' perception of customs services has been finalized. The report has been reviewed by the *Comité Technique de Suivi*, a committee consisting of the secretaries general of all ministries associated with the program and chaired by the Deputy Secretary General of the Presidency, and finalized.

Ensure Efficient and Transparent Public Resource Management with a View to Poverty Reduction

Improve budget management

(i) A medium-term macroeconomic and expenditure framework and medium-term expenditure plans for the health and education sectors have been presented in the 2003 Budget documents submitted to Parliament.

(ii) A medium-term expenditure plan for the ministries in charge of health, education, housing and territorial management, agriculture, livestock, and public works has been prepared before the adoption of the 2004 Budget Law.

(iii) The required number of qualified staff (15 economists) has been recruited in the Budget Directorate, including macroeconomists for the economic forecasting subdirectorate (sous-direction de la prévision) and qualified executives for the investment subdirectorate (sous-direction de l'investissement).

(iv) The first phase of the implementation of the Integrated Financial Management Information System (design of the work program, installation of the computerized platform for software development and of a training room with approximately 15 computers, definition of technical requirements and main changes needed to adapt the Burkina software and the launching of budget preparation for a few ministries with training of the agents involved) has been completed and the users' training at the Ministry of Economy and Finance has been launched.

(v) The needs in terms of qualified staff in the area of budget preparation and procurement for the Administrative and Financial Directorates have been identified in the ministries in charge of health, education, higher education, housing and territorial management, public works, justice, agriculture, livestock, and water and environment.

(vi) There has been a continued monthly publication of the table on the execution of the budget in 2003, distinguishing between commitment, order to pay and payment and distinguishing specifically the ministries in charge of education, higher education, health, social action, public works, housing and territorial management, justice, agriculture, livestock, and water and environment.

(vii) The action plans to improve the delivery of public expenditures to health and education facilities have been finalized and their implementation launched.

(viii) A public procurement plan has been produced in the ministries in charge of health, social action, education, higher education, housing and territorial management, public works, justice, agriculture, livestock, and water and environment for 2004.

(ix) The 2002 Budget Settlement Law has been submitted to Parliament before the adoption of the 2004 Budget Law.

Increase transparency and efficiency in public procurement

(i) The new procurement code, including the texts creating an independent appeals system, has been signed and draft implementation decrees have been prepared.

(ii) The quarterly procurement bulletin is being published regularly.

(iii) The audit for the 2002 procurement contracts has been completed and published.

Improve transparency and efficiency in human resource management in the civil service

(i) An audit of nine ministries (finance, planning, justice, education, higher education, health, social action, livestock, and agriculture) covering organizational, procedural and human aspects has been completed.

(ii) The technical committee, gathering all stakeholders in the implementation of the civil service reform program, has been assigned the task of consulting on and coordinating the reform agenda in a consensual and participatory way, and liaising with other key stakeholders, notably unions; and terms of reference for this mission have been issued.

(iii) The recommendations of the audit of the nine ministries have been validated, and HCI has adopted an action plan to improve human resource management in the civil service.

(iv) A study assessing the financial impact of the civil service reform under various scenarios has been launched.

(v) The Civil Service Reform Implementation Committee or the HCI has chosen a computerized system for the administrative and financial management of the civil service.

B. Economic Growth

(i) An action plan for the restructuring of local coordination committees has been adopted.

(ii) A report has been prepared for HCI presenting the nine scenarios for the divestiture of the state from Cotontchad, highlighting social, economic, financial, institutional and productive issues to be tackled; and the HCI has adopted a few scenarios.

(iii) An official agreement has been entered into between the government and Cotontchad on the cross-debt situation.

Areas of shared responsibility

18. Areas of shared responsibility between the Bank and the Fund concern mainly (i) the dialogue on petroleum revenue management and support to increase transparency and efficiency in public finance management; and (ii) support to governance reforms.

19. In all these areas, the Bank and the Fund maintain also a joint dialogue but focus separately on specific components of the reform program. They have defined complementary benchmarks in their instruments of support for measuring progress in the implementation of the program. In addition, the Bank provides technical assistance and support for the implementation of the reform program through several projects, notably the Management of the Petroleum Economy Project and structural adjustment credits.

20. Exchange of information, consultation, and coordination for defining benchmarks and discussing progress in the implementation of the reform agenda take place regularly between the Bank and the Fund. Joint missions are carried out at least twice a year to review progress and discuss the next steps on the program of reforms in these areas.

21. There is also close collaboration and shared responsibility between the Bank and the Fund on the monitoring of HIPC Initiative completion point triggers, with the Bank taking the lead on triggers in the health, education, rural development, and infrastructure sectors, and the IMF taking the lead in the assessment of Chad’s macroeconomic performance.

Responsibility for monitoring most governance-related triggers is shared. Similarly, the Bank and the Fund have agreed jointly with the authorities on an action plan to improve the tracking of poverty-related spending. The two institutions monitor progress and exchange information about the implementation of the plan.

22. The Bank and the Fund also collaborate very closely on the dialogue pertaining to the PRSP, with the IMF focusing on the macroeconomic framework, and the Bank on all other areas covered in the document.

Areas where the IMF leads

23. The IMF has taken the lead in the discussion and definition of the macroeconomic framework and the setting up of macroeconomic objectives and targets (overall public sector deficit, primary balance, current account balance and overall balance of payment, monetary sector quantitative targets, and other benchmarks). The IMF also leads the dialogue on revenue mobilization, notably tax policy.

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Chad: External and Public Debt Sustainability Analysis (DSA)

This note assesses the sensitivity of Chad's external and public debt dynamics under the staff's baseline scenario to a number of standardized shocks in the debt sustainability framework developed for Low-Income Countries (LIC DSA).

The Baseline Scenario

The assumptions underlying the DSA are based on the program's medium-term macroeconomic framework and the September *World Economic Outlook (WEO)* forecast. The results indicate that the NPV of public debt-to-revenue ratio will be reduced from about 250 percent in 2002 to about 100 percent in 2009. Debt service-to-revenue ratio[9] will fall from 22 percent in 2002 to 7 percent in 2023, while the NPV of external debt-to-exports is expected to narrow from 197.5 percent of exports in 2002 to 46 percent in 2009 (Tables 1 and 3).

Fiscal Sustainability

Under a scenario of real GDP growth and primary balance at historical averages, the NPV of debt to GDP would increase to 58 percent in 2009, compared with 21 percent in the baseline scenario. Similarly, in the absence of public finance reforms, the NPV of debt-to-revenue would increase to 172 percent in 2009, compared with 107 percent in the baseline scenario. These results point to the need for continued efforts to consolidate the fiscal position and policies conducive to private sector-led growth (Table 2 and Figure 1)

External Sustainability

The DSA results show deterioration in the external debt position if real GDP growth and the external current account were projected at historical averages, or if there was a worsening in borrowing conditions. These results attest to the need for continued prudent debt management policies and measures to foster diversification and export growth (Table 4 and Figure 2).

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[9] In the LIC DSA model, the ratio of debt service to revenue is calculated with revenue and budgetary grants. Under a loan-by-loan HIPC DSA, grants are excluded.

Table 1. Chad: Public Sector Debt Sustainability Framework, Baseline Scenario, 2000-2023
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections									
	2000	2001	2002	Historical Average 6/	Standard Deviation 6/	2003	2004	2005	2006	2007	2008	2009	2003-09 Average	2013	2023	2010-23 Average
Public sector debt 1/	84.6	69.0	70.5	57.5	16.3	67.4	41.6	36.4	38.8	40.1	39.6	40.0	43.4	41.7	22.7	34.7
o/w foreign-currency denominated	74.4	58.1	58.5	53.4	12.2	54.0	33.8	30.8	34.0	36.5	37.1	38.9	37.9	40.9	22.7	34.1
Change in public sector debt	15.1	-15.6	1.6	3.8	13.3	-3.1	-25.8	-5.2	2.4	1.3	-0.5	0.4	-4.4	-1.3	-1.9	-1.2
Identified debt-creating flows	17.8	-6.2	-14.6	9.7	19.3	-19.4	-24.0	-5.7	2.3	1.0	-1.1	-3.0	-7.1	-2.7	-1.7	-1.8
Primary deficit	5.8	5.0	5.1	5.0	1.2	5.6	1.5	1.6	1.5	1.7	0.8	-2.6	1.4	-0.3	0.0	-0.1
Revenue and grants	13.6	12.3	14.0	13.2	0.8	16.6	12.6	14.4	14.8	14.9	15.9	19.6	15.6	17.3	16.9	17.0
of which : grants	5.6	5.2	6.1	6.1	1.4	8.1	3.8	3.9	4.1	4.1	3.9	3.8	4.5	3.0	1.2	2.3
Primary (noninterest) expenditure	19.4	17.3	19.1	18.2	1.1	22.2	14.1	16.1	16.4	16.6	16.6	17.0	17.0	17.0	16.9	16.9
Automatic debt dynamics	13.3	-9.6	-18.5	5.2	19.3	-23.4	-24.7	-6.4	1.3	-0.2	-1.4	0.1	-7.8	-2.1	-1.7	-1.6
Contribution from interest rate/growth differential	10.4	-7.2	-9.6	0.6	8.5	-17.6	-21.7	-5.5	-0.9	-1.4	-1.7	-0.3	-7.0	-1.8	-1.5	-1.3
of which : contribution from average real interest rate	-1.0	-1.9	-0.3	0.1	1.4	0.0	-1.6	-0.5	0.2	-0.1	-0.2	-0.2	-0.3	-0.3	-0.2	-0.3
of which : contribution from real GDP growth	11.4	-5.3	-9.3	3.3	12.5	-17.7	-20.1	-4.9	-1.1	-1.3	-1.5	-0.1	-6.7	-1.5	-1.2	-1.1
Contribution from real exchange rate depreciation	2.9	-2.5	-8.9	4.6	13.5	-5.8	-3.1	-0.9	2.2	1.2	0.4	0.4	-0.8	...	...	-0.2
Other identified debt-creating flows	-1.3	-1.5	-1.2	-0.4	0.6	-1.5	-0.7	-0.9	-0.5	-0.5	-0.5	-0.5	-0.7	-0.3	0.0	-0.2
Privatization receipts (negative)	-1.3	0.0	0.0	-0.2	0.4	-0.8	-0.5	-0.5	0.0	0.0	0.0	0.0	-0.3	0.0	0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief (HIPC and other)	0.0	-1.5	-1.2	-0.3	0.6	-0.7	-0.2	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.3	0.0	-0.2
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes	-2.7	-9.4	16.1	-5.9	22.7	16.3	-1.8	0.5	0.1	0.3	0.5	3.4	2.8	1.4	-0.2	0.6
NPV of public sector debt	52.3	45.8	35.9	31.9	11.9	34.8	22.1	19.3	20.4	21.0	20.8	21.0	22.8	24.1	14.0	20.4
o/w foreign-currency denominated	42.1	34.9	23.9	27.8	7.9	21.4	14.3	13.6	15.6	17.4	18.3	19.9	17.2	23.3	14.0	19.8
o/w external	42.1	34.9	23.9	27.8	7.9	21.4	14.3	13.6	15.6	17.4	18.3	19.9	17.2	23.3	14.0	19.8
NPV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing need 2/	8.3	7.1	8.1	6.9	1.4	8.0	2.9	3.2	3.0	3.1	2.1	-1.2	3.0	0.9	0.6	0.8
NPV of public sector debt-to-revenue ratio (in percent) 3/	383.4	372.4	257.1	241.7	92.2	209.1	175.7	133.3	137.9	140.6	131.1	107.1	147.8	139.7	82.6	119.5
o/w external	308.8	284.0	171.3	211.1	61.8	128.6	113.5	94.0	105.6	116.5	115.5	101.4	110.7	134.7	82.6	116.2
Debt service-to-revenue ratio (in percent) 3/ 4/	18.6	17.5	21.7	14.7	5.0	14.4	11.3	11.0	9.8	9.3	8.5	7.0	10.2	7.0	3.4	5.6
Primary deficit that stabilizes the debt-to-GDP ratio	-9.3	20.6	3.6	4.9	15.0	8.7	27.2	6.8	-0.9	0.4	1.3	-3.0	5.8	1.0	1.9	1.1
Key macroeconomic and fiscal assumptions																
Real GDP growth (in percent) 5/	-14.1	6.7	15.6	-0.4	21.1	33.5	42.5	13.5	3.2	3.5	4.0	0.1	14.3	3.5	5.2	3.3
Average nominal interest rate on forex debt (in percent)	1.3	1.1	1.8	2.1	1.2	1.4	1.2	1.6	1.3	1.3	1.2	1.2	1.3	1.1	1.0	1.0
Average real interest rate on domestic currency debt (in percent)	-4.2	-10.2	-3.5	-6.0	3.7	2.5	-12.2	-3.5	7.0	3.5	1.5	2.3	0.1	5.2	...	5.2
Real exchange rate depreciation (in percent, + indicates depreciation)	4.0	-3.6	-17.6	7.8	24.4	-13.3	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	6.0	12.1	3.7	6.4	20.1	-2.5	15.6	5.7	-5.2	-1.7	0.8	0.8	1.9	2.7	2.9	2.7
Growth of real primary spending (deflated by GDP deflator, in percent)	-7.6	-5.1	27.9	-0.4	25.2	55.1	-9.8	29.7	5.2	5.1	4.1	2.1	13.1	3.5	5.4	3.3
Grant element of new external borrowing (in percent)	...	...	...	...	...	...	55.0	52.8	53.1	53.5	53.7	54.6	53.8	54.6	54.6	54.6

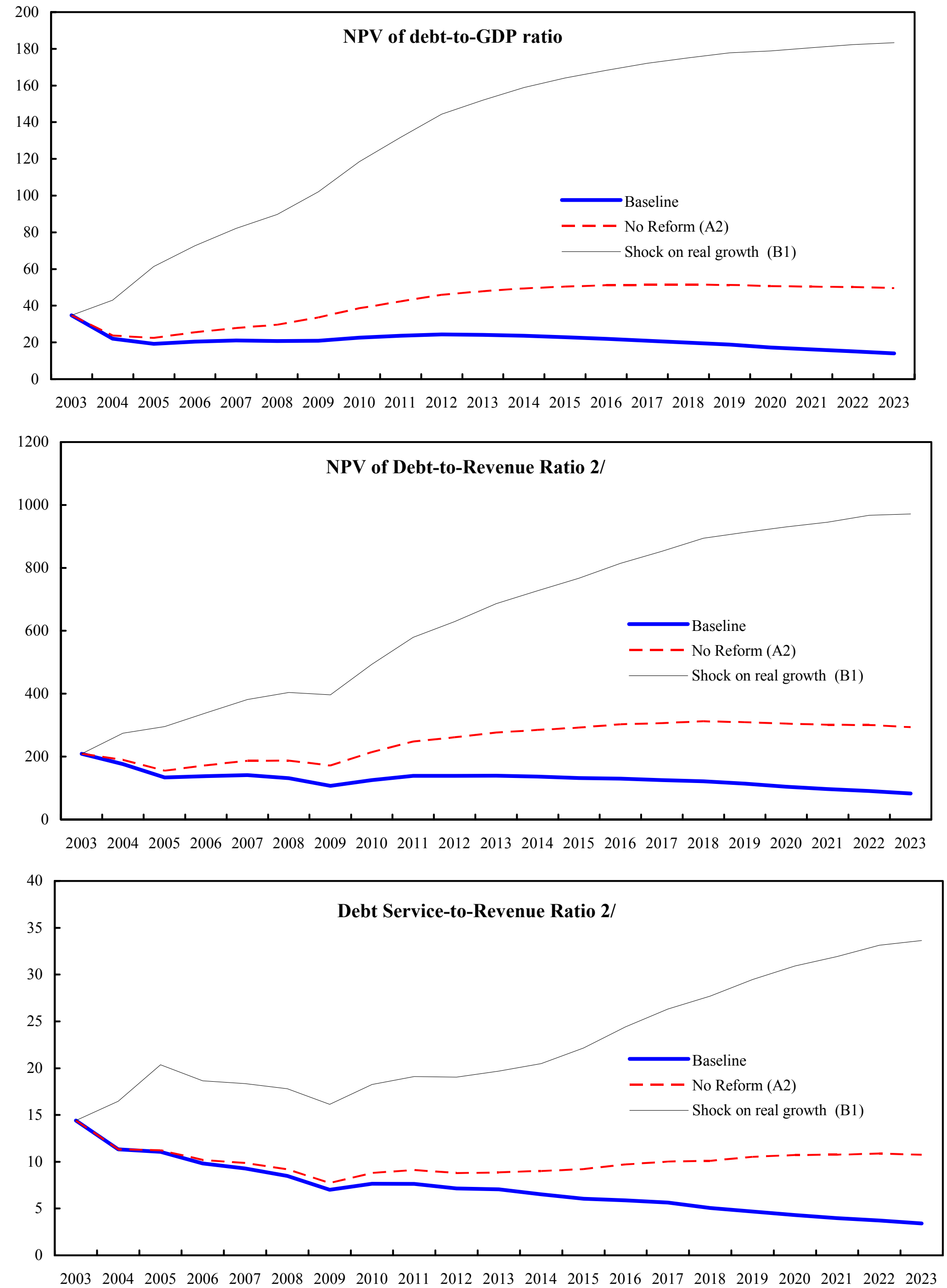
Sources: Country authorities; and Fund staff estimates and projections.
1/ Public sector comprises the central government.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues including grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Real GDP growth rates are expressed in US$ dollar terms. This explains the differences with ratio presented in Table 2.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2. Chad: Sensitivity Analyses for Key Indicators of Public Sector Debt , 2003-2023

	Estimate	Projections							
	2003	2004	2005	2006	2007	2008	2009	2013	2023
NPV of Debt-to-GDP Ratio									
Baseline	35	22	19	20	21	21	21	24	14
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	35	34	36	42	47	51	58	89	148
A2. Primary balance is unchanged from 2003	35	24	22	26	28	30	34	48	50
A3. Permanently lower GDP growth 1/	35	23	21	24	26	28	31	51	99
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2004-2005	35	43	61	73	82	90	102	152	183
B2. Primary balance is at historical average minus one standard deviations in 2004-2005	35	24	23	24	25	25	25	29	17
B3. Combination of A2-A3 using one half standard deviation shocks	35	37	43	43	42	39	38	39	14
B4. One time 30 percent real depreciation in 2004	35	29	25	26	26	25	25	28	17
B5. 10 percent of GDP increase in other debt-creating flows in 2004	35	26	23	24	25	25	25	28	17
NPV of Debt-to-Revenue Ratio 2/									
Baseline	209	176	133	138	141	131	107	140	83
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	209	235	205	226	244	250	240	400	644
A2. Primary balance is unchanged from 2003	209	189	155	172	187	187	172	277	294
A3. Permanently lower GDP growth 1/	209	180	142	154	167	166	150	272	542
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2004-2005	209	274	295	339	381	403	396	686	971
B2. Primary balance is at historical average minus one standard deviations in 2004-2005	209	192	159	165	168	156	128	165	98
B3. Combination of A2-A3 using one half standard deviation shocks	209	249	229	222	213	192	161	191	78
B4. One time 30 percent real depreciation in 2004	209	230	170	173	172	158	128	162	98
B5. 10 percent of GDP increase in other debt-creating flows in 2004	209	209	158	164	167	156	128	165	98
Debt Service-to-Revenue Ratio 2/									
Baseline	14	11	11	10	9	8	7	7	3
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	14	15	16	15	15	15	13	16	27
A2. Primary balance is unchanged from 2003	14	11	11	10	10	9	8	9	11
A3. Permanently lower GDP growth 1/	14	12	12	11	10	10	9	11	16
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2004-2005	14	16	20	19	18	18	16	20	34
B2. Primary balance is at historical average minus one standard deviations in 2004-2005	14	11	11	10	10	9	7	7	4
B3. Combination of A2-A3 using one half standard deviation shocks	14	15	18	16	15	14	12	12	3
B4. One time 30 percent real depreciation in 2004	14	12	12	11	11	10	8	8	4
B5. 10 percent of GDP increase in other debt-creating flows in 2004	14	11	11	10	10	9	7	7	4

Sources: Country authorities; and Fund staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).
2/ Revenues are defined inclusive of grants.

Figure 1. Chad: Indicators of Public Debt Under Alternative Scenarios, 2003-2023 1/
(In percent)



Source: Staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2013.
2/ Revenue including grants.

Table 3. Chad: External Debt Sustainability Framework, Baseline Scenario, 2000-2023 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 7/	Standard Deviation 7/	Estimate	Projections									
	2000	2001	2002			2003	2004	2005	2006	2007	2008	2009	2003-09 Average	2013	2023	2010-23 Average
External debt (nominal) 1/	**74.4**	**58.1**	**58.5**			**54.0**	**33.8**	**30.8**	**34.0**	**36.5**	**37.1**	**38.9**	**37.9**	**40.9**	**22.7**	**34.1**
o/w public and publicly guaranteed (PPG)	74.4	58.1	58.5			54.0	33.8	30.8	34.0	36.5	37.1	38.9	37.9	40.9	22.7	34.1
Change in external debt	12.4	-16.3	0.4			-4.5	-20.2	-3.1	3.3	2.5	0.6	1.8	-2.8	-1.2	-1.9	-1.2
Identified net debt-creating flows	19.0	-2.5	-1.3			-1.2	-7.4	-1.8	1.9	1.9	1.6	0.2	-0.7	1.6	-1.2	0.6
Non-interest current account deficit	**20.7**	**37.1**	**52.8**	**18.5**	**15.4**	**41.4**	**19.0**	**8.1**	**4.5**	**4.1**	**4.0**	**1.2**	**11.8**	**4.3**	**2.1**	**3.2**
Deficit in balance of goods and services	20.2	36.4	52.2			32.9	-17.8	-30.9	-30.6	-27.9	-25.1	-19.3	-17.0	-3.2	-0.2	-2.7
Exports	17.0	15.2	12.1			21.0	53.2	58.1	54.9	51.0	47.9	43.1	47.0	25.6	17.7	22.9
Imports	37.3	51.6	64.3			53.9	35.4	27.2	24.3	23.1	22.8	23.8	30.1	22.4	17.5	20.2
Net current transfers (negative = inflow)	-3.6	-2.8	-1.9	-4.4	2.2	-3.3	-2.2	-0.8	0.3	0.3	0.3	0.1	-0.8	-0.1	-0.2	-0.1
Other current account flows (negative = net inflow)	4.1	3.4	2.5			11.8	39.0	39.8	34.9	31.7	28.8	20.4	29.5	7.6	2.6	6.1
Net FDI (negative = inflow)	**-8.2**	**-27.6**	**-45.0**	**-9.5**	**14.4**	**-27.9**	**-12.9**	**-6.4**	**-1.9**	**-1.3**	**-1.3**	**-1.3**	**-7.6**	**-1.7**	**-2.4**	**-1.9**
Endogenous debt dynamics 2/	**6.5**	**-11.9**	**-9.1**			**-14.6**	**-13.6**	**-3.4**	**-0.7**	**-0.9**	**-1.1**	**0.3**	**-4.9**	**-1.0**	**-1.0**	**-0.7**
Contribution from nominal interest rate	0.4	0.3	0.6			0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3
Contribution from real GDP growth	9.6	-4.2	-7.6			-15.1	-13.9	-3.8	-1.0	-1.2	-1.4	-0.1	-5.2	-1.4	-1.2	-1.0
Contribution from price and exchange rate changes	-3.5	-8.0	-2.1			…	…	…	…	…	…	…	**...**	…	…	...
Residual (3-4) 3/	**-6.6**	**-13.9**	**1.8**			**-3.4**	**-12.8**	**-1.3**	**1.3**	**0.5**	**-1.0**	**1.6**	**-2.1**	**-2.8**	**-0.7**	**-1.8**
o/w exceptional financing	-0.3	-1.2	-3.8			-2.4	-0.8	-1.2	-1.5	-1.4	-0.7	-0.1	-1.2	-0.1	0.0	0.0
																...
NPV of external debt 4/	42.1	34.9	23.9			21.5	14.3	13.6	15.6	17.4	18.3	19.9	**17.2**	23.3	14.0	19.8
In percent of exports	247.2	229.7	197.5			102.4	26.8	23.4	28.5	34.1	38.3	46.1	42.8	91.0	79.1	88.5
NPV of PPG external debt	**42.1**	**34.9**	**23.9**			**21.5**	**14.3**	**13.6**	**15.6**	**17.4**	**18.3**	**19.9**	**17.2**	**23.3**	**14.0**	**19.8**
In percent of exports	247.2	229.7	197.5			102.4	26.8	23.4	28.5	34.1	38.3	46.1	42.8	91.0	79.1	88.5
Debt service-to-exports ratio (in percent)	2.6	4.4	15.0			7.6	2.2	2.0	1.6	1.6	1.7	1.9	2.7	5.3	9.0	7.0
PPG debt service-to-exports ratio (in percent)	**2.6**	**4.4**	**15.0**			**7.6**	**2.2**	**2.0**	**1.6**	**1.6**	**1.7**	**1.9**	**2.7**	**5.3**	**9.0**	**7.0**
Total gross financing need (millions of U.S. dollars)	171.4	144.5	120.7			486.3	292.6	155.5	75.0	198.0	222.5	72.6	214.6	256.7	204.7	239.3
Non-interest current account deficit that stabilizes debt ratio	8.3	53.4	52.4			45.9	39.2	11.1	1.3	1.6	3.4	-0.5	14.6	5.5	4.0	4.4
Key macroeconomic assumptions																
Real GDP growth (in percent) 5/	-14.1	6.7	15.6	-0.4	21.1	33.5	42.5	13.5	3.2	3.5	4.0	0.1	14.3	3.5	5.2	3.3
GDP deflator in US dollar terms (change in percent)	6.0	12.1	3.7	6.4	20.1	-2.5	15.6	5.7	-5.2	-1.7	0.8	0.8	1.9	2.7	2.9	2.7
Effective interest rate (percent) 6/	0.6	0.5	1.1	0.7	0.9	1.0	1.1	1.3	0.9	0.9	0.9	0.8	1.0	0.9	1.0	0.9
Growth of exports of G&S (US dollar terms, in percent)	-1.5	6.8	-4.4	5.3	34.9	124.8	318.4	31.0	-7.6	-5.4	-1.6	-9.2	64.3	-1.0	6.4	-0.2
Growth of imports of G&S (US dollar terms, in percent)	1.1	65.8	49.3	13.1	26.1	9.0	8.3	-7.9	-12.7	-3.2	3.4	5.6	0.3	3.0	6.8	3.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	...	55.0	52.8	53.1	53.5	53.7	54.6	53.8	54.6	54.6	54.6
Memorandym item:																
Nominal GDP (millions of US dollars)	1,395	1,669	2,001			2,604	4,288	5,143	5,030	5,119	5,363	5,414		6,040	12,321	

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Real GDP growth rates are expressed in US$ dollar terms. This explains the differences with ratio presented in Table 2.
5/ Current-year interest payments devided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

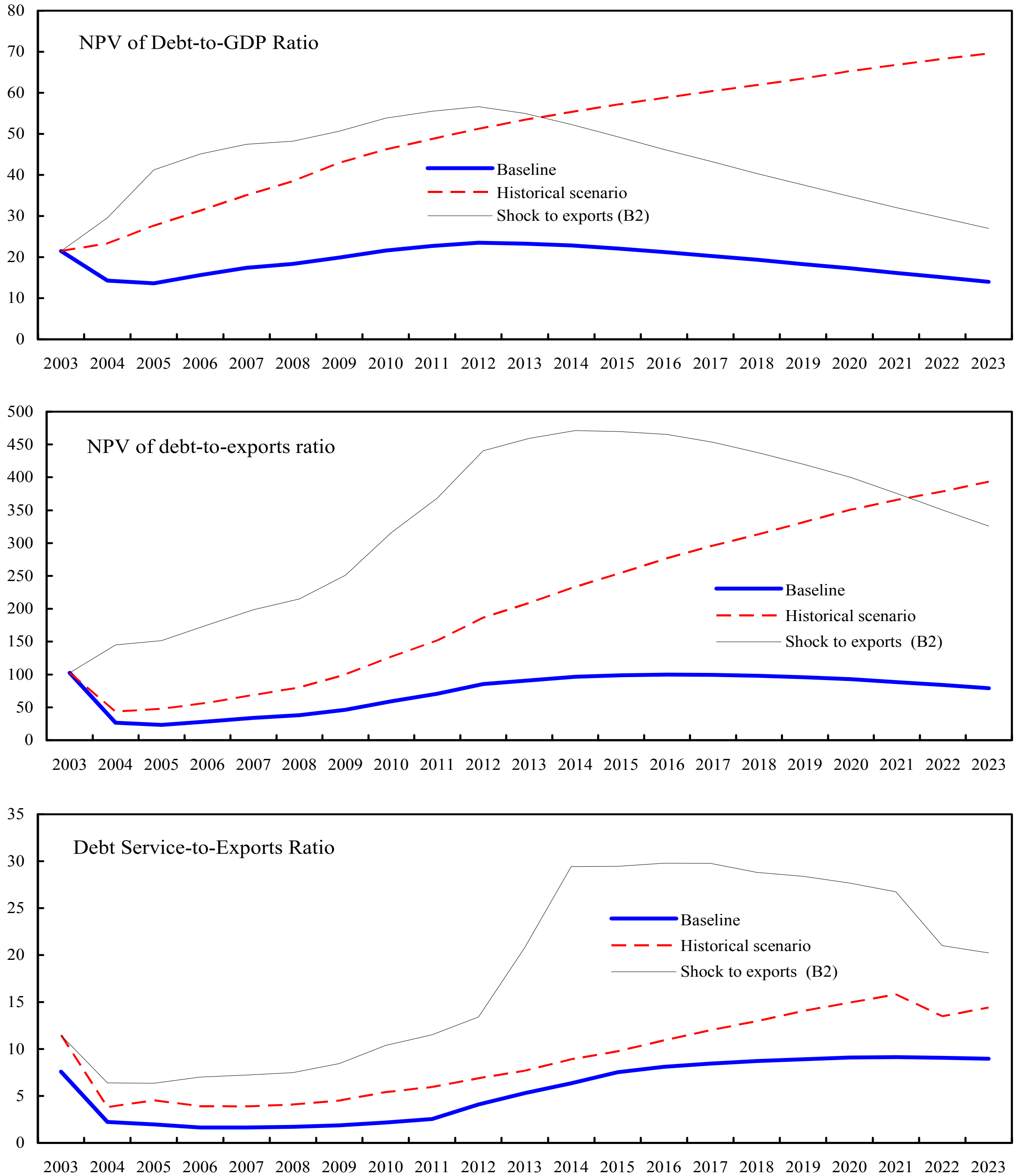
Table 4. Chad: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2003-23
(In percent)

	Estimate	Projections							
	2003	2004	2005	2006	2007	2008	2009	2013	2023
NPV of debt-to-GDP ratio									
Baseline	21	14	14	16	17	18	20	23	14
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2004-23 1/	21	23	28	31	35	38	43	53	70
A2. New public sector loans on less favorable terms in 2004-23 2/	21	15	16	20	23	25	28	36	27
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	21	26	36	41	46	48	52	61	37
B2. Export value growth at 2002-2003 historical average in 2004-05 3/	21	30	41	45	47	48	51	55	27
B3. US dollar GDP deflator at historical average minus one standard deviation in 2004-05	21	19	22	26	29	30	33	38	23
B4. Net non-debt creating flows at historical average minus one standard deviation in 2004-05 4/	21	23	26	29	31	32	34	37	20
B5. Combination of B1-B4 using one-half standard deviation shocks	21	57	110	121	127	129	136	147	72
B6. One-time 30 percent nominal depreciation relative to the baseline in 2004 5/	21	19	18	21	24	25	27	31	19
NPV of debt-to-exports ratio									
Baseline	102	27	23	29	34	38	46	91	79
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2004-23 1/	102	44	48	57	69	80	100	209	393
A2. New public sector loans on less favorable terms in 2004-23 2/	102	29	28	36	45	52	65	139	152
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	102	27	23	29	34	38	46	91	79
B2. Export value growth at 2002-2003 historical average in 2004-05 3/	102	145	152	175	199	215	251	459	326
B3. US dollar GDP deflator at historical average minus one standard deviation in 2004-05	102	27	23	29	34	38	46	91	79
B4. Net non-debt creating flows at historical average minus one standard deviation in 2004-05 4/	102	43	44	52	60	66	78	146	111
B5. Combination of B1-B4 using one-half standard deviation shocks	102	146	152	175	199	215	251	459	326
B6. One-time 30 percent nominal depreciation relative to the baseline in 2004 5/	102	27	23	29	34	38	46	91	79
Debt service ratio									
Baseline	8	2	2	2	2	2	2	5	9
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2004-23 1/	11	4	5	4	4	4	4	8	14
A2. New public sector loans on less favorable terms in 2004-23 2/	11	2	3	3	3	3	4	8	9
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	11	2	3	2	2	2	3	5	3
B2. Export value growth at 2002-2003 historical average in 2004-05 3/	11	6	6	7	7	7	8	21	20
B3. US dollar GDP deflator at historical average minus one standard deviation in 2004-05	11	2	3	2	2	2	3	5	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2004-05 4/	11	2	3	3	3	3	3	7	6
B5. Combination of B1-B4 using one-half standard deviation shocks	11	6	6	7	7	7	8	21	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2004 5/	11	2	3	2	2	2	3	5	3
Memorandum item:									
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	53	53	53	53	53	53	53	53	53

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Figure 2. Chad: Indicators of Public and Publicly Guaranteed External Debt
Under Alternative Scenarios, 2003-23
(In percent)



Source: Fund staff projections and simulations.

Chad: Core Statistical Indicators

(As of January 25, 2005)

	Exchange Rates 1/	International Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Current Government Balance	GDP/GNP	External Debt
Date of latest Observation	Daily	November 2004	November 2004	November 2004	November 2004	January 2005	November 2004	2003	2003	October 2004	2003	January 15, 2005
Date received	Daily	January 2005	January 2005	January 2005	January 2005	January 2005	December 2004	November 2004	November 2004	January 2005	November 2004	January 21, 2005
Frequency of data	Monthly	Monthly	Monthly	Monthly	Monthly	Irregular	Monthly	Annual	Annual	Monthly	Annual	Bi-monthly
Frequency of reporting	Monthly	Monthly	Monthly	Monthly	Quarterly	Quarterly	Monthly	Annual	Annual	Monthly	Annual	Bi-monthly
Source of data	Central bank	Central bank	Central bank	Central bank	Central bank	Central bank	Ministry of Planning (INSEED)	Central bank	Central bank	Ministry of Finance	Ministry of Planning (INSEED)	Ministry of Finance
Mode of reporting	Electronic Mail	Electronic Mail	Electronic Mail	Electronic Mail	Electronic Mail	Mission in the field or electronic mail	Fax or mission in the field	Mission in the field	Mission in the field	Fax or Electronic Mail	Fax or mission in the field	Fax or mission in the field
Confidentiality	NO	YES	YES	YES	YES	NO	NO	YES	YES	YES	YES	YES

1/ Since January 1, 1999, the CFA franc has been pegged to the euro.

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FOR IMMEDIATE RELEASE
February 16, 2005

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$38.2 Million PRGF Arrangement for Chad and Grants Additional Interim Assistance of US$2.1 Million Under the Enhanced HIPC Initiative

The Executive Board of the International Monetary Fund (IMF) today approved a three-year arrangement under the Poverty Reduction Growth Facility (PRGF) for Chad in an amount equivalent to SDR 25.2 million (about US$38.2 million) to support the government's economic program into 2008. The first disbursement under the arrangement will amount to SDR 4.2 million (about US$6.4 million).

In addition, the Board granted additional interim assistance under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in an amount equivalent to SDR 1.375 million (about US$2.1 million). This amount covers 13.2 percent of Chad's principal obligations due to the IMF between March 1 and December 31, 2005.

Following the Executive Board's discussion of Chad, Ms. Anne O. Krueger, First Deputy Managing Director and Acting Chair, stated:

"The Chadian authorities have continued to strengthen economic management and improve transparency. They made substantial progress in 2004 in finalizing the institutional arrangement for the transparent management of oil resources, and took measures to curtail expenditure in response to substantial shortfalls in external budget support and non-oil revenue, and to eliminate external payments arrears. Economic growth was high, inflation remained subdued, and the external position continued to strengthen.

"Notwithstanding this progress, Chad continues to face daunting challenges, including widespread poverty and important impediments to growth. The authorities need to continue efforts to manage the oil revenue in an efficient and transparent manner to reduce poverty, while preserving macroeconomic stability and long-term fiscal sustainability. Decisive progress is also needed on structural reforms, particularly in the cotton sector, to lay the foundations for a sustained expansion of the non-oil sector.

"The authorities' medium-term program, supported by a new PRGF arrangement, aims to create conditions for sustained private sector-led growth and poverty reduction, consistent with the objectives laid out in Chad's poverty reduction strategy. A key objective of the program is to ensure that oil revenues are effectively used to support lasting poverty reduction. Within this overall framework, the program focuses on consolidating the fiscal position through measures to enhance non-oil revenue collection, and strengthen the budgetary process as well as expenditure policy.

"The authorities are committed to accelerating structural reforms in key areas critical for improved governance and increased economic efficiency. They have put a particular emphasis on reforms of the cotton and energy sectors and the civil service. Progress in these areas, together with increased investment in infrastructure programmed for 2005, will contribute to productivity gains in the non-oil economy. Regarding the cotton sector, the authorities will prepare a reform strategy, in consultation with the World Bank, aimed at determining a timeline for the privatization of the cotton company, Cotontchad, and measures to strengthen producers' organizations.

"The authorities have continued efforts to meet structural conditions for the completion point under the enhanced HIPC Initiative. Progress has been marked in the education, health, and infrastructure sectors. Timely implementation of outstanding structural measures, as well as satisfactory performance under the new PRGF arrangement, will pave the way for Chad to reach the completion point under the HIPC Initiative," Ms. Krueger stated.

Background

Chad has made progress in recent years in macroeconomic stabilization and economic reforms. Nevertheless, it remains one of the poorest countries in the world, and continues to face important impediments to growth. The advent of oil production in late 2003 constitutes a unique opportunity for the authorities to reduce poverty substantially and make progress toward the Millennium Development Goals. This, however, requires continued efforts to strengthen economic policies and implement structural reforms needed to sustain private sector-led growth and improve Chad's medium-term growth prospects.

Growth performance averaged 10 percent a year since 2001, fueled by the construction of the Chad-Cameroon pipeline. In 2004, growth was limited to about 2 percent in the non-oil economy, because of the impact of low rainfall and of the desert locust infestation on agricultural output, and weak domestic demand. Inflation remained subdued, mainly reflecting a bumper crop in the preceding year. Chad's external position strengthened further with the significant increase in oil exports and the decline in imports following the completion of the oil pipeline construction. Fiscal performance was mixed in 2004. Despite spending cuts, shortfalls in revenue and external budget support led to an accumulation of domestic and external payments arrears.

In 2003-04, Chad made progress in implementing structural reforms aimed at strengthening expenditure management and improving transparency. In particular, the authorities nearly completed the institutional framework for the efficient management of oil revenue and put in place a computerized system for expenditure management. However, reforms in the cotton sector suffered considerable delays. The authorities continued efforts to meet conditions for reaching the completion point under the enhanced HIPC Initiative.

Chad reached the decision point under the enhanced HIPC Initiative in May 2001. Committed debt relief totaled US$170 million in net present value terms, including today's interim assistance, which is part of the IMF's share of HIPC Initiative relief, which amounts to US$18 million in net present value terms.

Program Summary

Chad's new PRGF-supported program aims to strengthen growth prospects and reduce poverty. It focuses on consolidating the fiscal position through improved non-oil revenue collection and strengthened expenditure and cash flow management. It also envisages further progress in structural reforms, particularly in areas critical for economic efficiency and governance.

Key macroeconomic objectives for 2005-07 are to achieve an annual real non-oil GDP growth rate of about 5.5 percent a year; limit annual inflation to about 3 percent; and reduce the external current account deficit (excluding official transfers) to 4.4 percent of GDP by 2007.

The program seeks to achieve a sustainable fiscal position over the medium term, while ensuring an efficient use of oil revenue for poverty reduction. Hence, it aims to narrow the non-oil primary base deficit to 4.1 percent of non-oil GDP by 2007, through the implementation of measures to strengthen non-oil revenue performance and a prudent expenditure policy. Structural reforms to strengthen budgetary procedures, as well as expenditure and cash management, will be critical for the achievement of fiscal objectives under the program.

The structural reform agenda includes measures to improve public sector efficiency through reforms in the civil service and in the energy and cotton sectors. The civil service reform focuses on enhancing personnel management. In the energy sector, the objective is to increase energy supply and to address the financial situation of the state-owned company. In the cotton sector, the authorities' strategy aims to disengage the state from the sector, while strengthening producers' organizations. Chad will also continue its efforts to meet structural triggers under the enhanced HIPC Initiative to reach the completion point in 2005.

Chad: Selected Economic and Financial Indicators, 2002-08

	2002	2003	2004	2005	2006	2007	2008
	Act.	Est.	Proj.				
	(Annual percentage change, unless otherwise specified)						
GDP at constant prices	9.9	11.3	31.0	12.7	3.1	3.4	3.9
Oil GDP	114.4	192.2	268.3	26.9	-1.2	-0.7	0.5
Non-oil GDP	7.7	3.5	1.9	6.4	5.3	5.4	5.4
Consumer price index (annual average)	5.2	-1.8	-4.8	3.0	3.0	3.0	3.0
Exports, f..o.b. (units, CFA francs)	-14.7	125.7	338.7	31.2	-8.1	-6.0	-2.0
Imports, f.o.b. (units, CFA francs)	47.8	-12.4	0.4	-3.8	-12.2	-2.7	3.4
Export volume	-2.2	60.2	209.4	26.8	4.2	1.1	1.2
Import volume	50.0	-9.9	-0.4	-5.8	-13.2	-1.3	2.8
Terms of trade (depreciation -)	-2.5	40.6	22.5	-1.6	-13.3	-2.6	-2.8
Real effective exchange rate	5.3	2.0	…	…	…	…	…
Domestic credit	-1.2	19.3	-10.3	-17.5	…	…	…
Credit to the government (net) 1/	-0.8	5.9	-11.0	-20.0	...	...	...
Credit to the economy	-0.8	23.9	1.0	10.0	...	...	...
Money and quasi money	24.2	-3.1	6.7	8.0	...	...	...
	(In percent of GDP, unless otherwise specified)						
Total government revenue	7.9	8.5	8.8	10.5	10.7	10.9	11.9
Total government expenditure	19.9	22.8	14.7	16.6	16.9	17.3	17.2
Primary base balance, excluding oil sector revenue 2/	-2.3	-2.9	-2.1	-3.6	-2.8	-2.7	-2.4
Overall fiscal deficit (commitment basis)	-12.0	-14.3	-6.0	-6.1	-6.1	-6.4	-5.3
Gross investment	62.5	55.1	24.7	19.1	16.0	16.6	17.1
Government	10.1	13.1	8.3	10.0	10.0	10.2	9.8
Private sector	52.5	41.9	16.4	9.1	5.9	6.5	7.3
Of which: oil sector	47.4	35.9	12.7	5.9	0.9	0.2	0.2
Gross national savings	10.7	15.0	6.7	11.6	11.5	12.6	13.2
Current account balance (including official current transfers)	-51.8	-40.1	-18.1	-7.5	-4.4	-4.0	-3.9
Current account balance (excluding official current transfers)	-53.4	-41.8	-19.4	-8.4	-4.8	-4.4	-4.3
External public debt (end of period)	58.5	54.0	33.8	30.8	34.0	36.5	37.1

Sources: Chadian authorities; and IMF staff estimates and projections.
1/ Changes as a percent of broad money stock at beginning of period.
2/ The primary base balance is the overall fiscal deficit, excluding debt-service payments and foreign-financed investment.

Statement by Damian Ondo Mañe, Executive Director for Chad
February 16, 2005

We would like to thank staff for the comprehensive and well-balanced report on Chad, which provides a thorough description of the country's economic situation and the challenges it faces. We are appreciative of their continued advice to the Chadian authorities in meeting these challenges. For its part, the government is fully committed to pursuing sound economic and financial policies and structural reforms aimed at strengthening the country's economy, improving growth and reducing poverty in a sustained manner.

The ex post assessment discussed at the Board last March highlighted progress achieved by Chad in many economic areas under Fund-supported programs, but it also revealed the many challenges the country has to address to achieve sustainable and lasting poverty reduction, notably the need to strengthen administrative capacity and physical infrastructure, improve human capital, consolidate security, enhance budget and cash management, increase access to financial services, and cope with exogenous shocks such as droughts and low international prices of agricultural products. Since the ex post assessment, other adverse shocks have been evident, notably the desert locust infestation and the Darfur situation, which has humanitarian consequences and budgetary implications for Chad. Among other constraints to sustained growth is the low and unpredictable external aid flows to Chad.

To address these numerous problems, the assistance of the international community is most needed. As the petroleum era may be short-lived and the contribution of oil revenue to the government budget has not been very significant so far, there is a need to not be overoptimistic about the oil factor. The resources from the HIPC Initiative debt relief carries much weight. My authorities are making efforts to tackle the problems the country faces. They commit to a close implementation of the program set forth in their PRGF, and stand ready to take any further measures if and when necessary. They call on all donors to support their efforts.

I. Overview of Chad's Economic Situation and Recent Policies

A landlocked country with partly semi-arid and mostly desertic climate, Chad faces the combined effects of poverty-related problems and frequent droughts that contribute to make this country one of the most impoverished countries in the world. While the petroleum era has commenced, most of Chad's oil revenue is earmarked for expenditures in priority sectors (education, health and social affairs, infrastructure, rural development, environment and water resources) and part is saved offshore in a *Fund for Future Generations* (FFG). Immediate social needs remain daunting and infrastructure deficient in many areas, including social sectors, transportation, energy and telecommunications, leading to difficulties in sustaining appropriate policy implementation and structural reform agenda. The country's limited institutional and administrative capacities add to the difficulties, highlighting the crucial need for financial and technical support.

Faced with such uneasy environment, my authorities have engaged in policies to maintain macroeconomic stability and they have initiated the implementation of a national strategy to reduce poverty. **Economic developments in 2004** have been largely driven by the strength of the oil production while non-oil sector growth (1.9%), especially agriculture, was hampered by low rainfall and desert locust infestation. Real GDP has grown by 31 percent, while inflation declined on account of increased food supply from the previous year and the strengthening of the euro to which the CFA franc is pegged. The last two years of the previous PRGF-supported program that expired in January 2004 have seen the achievement of the fiscal deficit targets, while efforts in 2004 have further improved the basic fiscal balance, bringing Chad in compliance with this criterion for CEMAC regional macroeconomic convergence. This was attained despite capacity constraints that hamper revenue collection. Efforts are being made to remedy the **revenue collection** problem, including action plans in the customs area and the setting up of institutional arrangements for the management of oil revenue to avoid delays in oil revenue accruing to the budget. Also, the approval of a new PRGF-supported program would resume aid flows that have sharply fell after the expiration of the previous arrangement.

On the **expenditure side**, my Chadian authorities have made significant downward adjustments in 2004 to compensate for the lower-than-expected budget resources. Cuts covered mostly current expenditures and domestically financed investment. However, my authorities remain committed to the improvement in the execution of prioritized expenditures. During the discussion of the ex post assessment, my Chadian authorities acknowledged the need to improve the composition of fiscal spending towards increased outlays in priority sectors. They have since made efforts in this direction, and spending in priority sectors is estimated to have increased by 20 percent in 2004.

The shortfalls in non-oil revenue and external budget support have also led to occurrences of **payment arrears**. Disagreements between the authorities and the petroleum consortium exploiting oil in Chad have led to delays in royalties payments and donor disbursements, contributing to arrears of payments to the Fund. While the authorities have made strong efforts to bring the country current on its obligations to the Fund, they had to accumulate domestic arrears accumulate in 2004. However, more than 56 percent of the stock of domestic debt has been verified, and understandings on a repayment schedule were reached with some creditors.

On the **monetary and financial front**, credit to the economy rose slightly in 2004, reflecting low economic activity. The banking system remains broadly sound, with most banks complying with the main prudential ratios of the regional banking supervision commission, COBAC.

Chad has made progress in implementing **structural reforms**. There have been broad and deep reforms in the area of transparency and governance in resource and expenditure management (para. 10 and 13 of the authorities' MEFP). In particular, the authorities have completed the computerization of the expenditure circuit and prepared a treasury cash-flow table, which will allow close monitoring of budget execution along the expenditure chain. Actions were also taken to avoid the re-emergence of arrears to the Fund, that of setting up a mechanism through which Chad's SDR holdings account will be used to repay the Fund. The authorities have also decided to establish an integrated system for the administrative and financial management of the civil service; established a budget discipline court in charge of enforcing civil servants' accountability; and published a wide range of reports, including on the 2002 and 2003 budget laws, the use of HIPC funds, the procedural manual of the CCSRP, the customs services action plan, and the implementation decrees for the new procurement code.

In the oil sector, a set of mechanisms have been designed and adopted to ensure transparency in, and appropriate use of, oil resources. The governing Law on Petroleum Revenue Management (LPRM) comprises stabilization and sterilization mechanisms, additionality of spending in the priority sectors financed by oil proceeds, the FFG, and a resource allocation system to ensure the development of the oil-producing region. LPRM, which has also established a supervisory body, the *Collège de Contrôle et de Surveillance des Ressources Pétrolières* (CCSRP), is viewed as a pioneering law in the region and puts Chad at the forefront of many oil producing developing countries in efforts towards oil sector transparency and governance. As stated above, most of the institutional arrangements for the proper management of oil resources have been set, and the last two decrees of implementation (on the FFG and the oil-producing region) have been issued.

The cotton sector, an important non-oil segment of the Chadian economy, continues to experience difficulties. The financial situation of the publicly-owned cotton company, Cotontchad, has deteriorated further in 2004, owing to the decline in world prices, the weakening of the US dollar, the increase in producer prices decided to support this population group, and decreased financial support on the part of the state, which itself lacks resources. Sectoral actions have been taken in 2004, including workshops intended to producers and potential investors. In the quest to privatize the company, two scenarios (sale of equities and sale of ginneries) have been selected out of nine and were discussed at the workshops.

My authorities are fully aware that, despite these substantial achievements, much remains to be done, especially on the structural front, to improve non-oil sector growth prospects and significantly reduce poverty. They are appreciative of the technical assistance from the Fund, and they expect to benefit from additional assistance, especially in the areas of budget preparation, execution and monitoring; governance strengthening; and fiscal agency coordination.

II. The Economic Program

My authorities will build on the progress achieved thus far to prepare further Chad to cope with the many challenges ahead, including those related to the petroleum era. In so doing, they are hopeful that the international community will be supportive of their efforts, particularly in helping to close the expected medium-term financing gaps. The Fund will play a crucial role in sending signal to donors and creditors by endorsing their policy and reform program.

The 2005-07 Medium-Term Program

The government's Poverty Reduction Strategy Paper is the main guide of its economic program. Over the medium-term, the latter will rest on **six economic, social and**

environmental pillars: (i) promoting good governance, (ii) ensuring strong and sustained growth, (iii) developing human capital, (iv) improving the living conditions of the poor, (v) restoring and safeguarding ecosystems, and (vi) monitoring and periodically evaluating the implementation of the poverty reduction strategy. To help establish the linkage between the objectives of the PRSP and the effective use of budget resources, the authorities have prepared, in collaboration with the Fund, a Medium-Term Expenditure Framework (MTEF) for 2005-07. In the process, based on lessons learned from MTEFs for priority sectors for the past two years, the government will improve the quality of the MTEF and link it more closely with the objectives of the PRSP.

The program emphasizes macroeconomic policies and structural reforms aimed at **maintaining a stable environment conducive to investment and the development of the private sector**. The MTEF, which prudently assumes no new investments for prospective oil fields, envisages that growth in the petroleum sector will be at around 27 percent in 2005 before slowing in the next two years. However, aware of the risks of Dutch disease and crowding-out of yet weak non-petroleum activities, my authorities seek to strengthen the non-oil sector, which growth will be driven by agriculture and services. The non-oil sector should expand by about 5.5 percent annually over the three-year period, owing to important productivity gains to be achieved through reforms in the energy and cotton sectors as well as further investment in infrastructure.

On fiscal management, my authorities seek to **improve non-oil revenue collection** through measures to combat tax evasion, improve efficiency in revenue-collecting agencies, and reduce tax exemptions. The level of revenue achieved by 2007, coupled with anticipated budgetary assistance, will allow the authorities to meet their obligations to domestic and external creditors. Nevertheless, as the authorities have often faced the daunting prioritization choice between domestic obligations (payments of civil service salaries) and external debt servicing, more predictable external financing would alleviate these difficulties and reduce the risks associated with the closing of recurrent financial gaps. In the same vein, rigidities have been observed in the implementation of the LPRM, which have favored late payments of obligations to the Fund. These rigidities, which lead to the lack of flexibility in cash management and increased fragmentation of budget management systems, need to be removed. While committed to manage oil revenue effectively and transparently, my authorities, following a year or two of implementation, are willing to make adjustments to the LPRM scheme in this direction.

My authorities have also expressed the desire to improve the composition of expenditures, effectively **continuing to give more weight to the priority sectors**, with the view to reduce poverty and make progress towards the Millennium Development Goals. In this endeavor, fiscal policy sustainability and debt relief provided under the HIPC Initiative will carry weight. The Chadian authorities understand that the sustainability and steadiness of the pro-poor and other expenditures that are key to the program success will depend on their ability to circumvent the effects of international oil price volatility. Thus, the government will pursue the provision of the stabilization account to smooth out these expenditures should unexpected and adverse oil market events occur.

Policies and structural measures envisaged in 2005

The economic program for 2005 focuses on reinforcing fiscal management (enhancement of non-oil revenue collection and strengthening expenditure management) and transparency, and on addressing impediments to growth through renewed momentum to the structural reform agenda. Institutional arrangements under the LPRM will also be completed. The recovery in cotton sector, along with oil-related activities, will spur economic growth in 2005. The non-oil sector growth should reach 6.4 percent, inflation be subdued to 3 percent, and the current account deficit improved further to 8.4 percent of GDP.

The **fiscal policy** is aimed at reinforcing macroeconomic stability. The expected overall budget deficit (11.2 percent of non-oil GDP) will be financed with external budgetary assistance, including debt relief under the HIPC Initiative. However, my authorities stand ready to make downward adjustments to nonpriority expenditure in the event of lower-than-anticipated budget resources, so as to avoid an accumulation of payments arrears.

On the revenue side, efforts to strengthen collection will include increases in human resources and computerization in the customs and tax agencies; better coordination and taxpayer information sharing between these two administrations; improved use of the import preshipment inspection certificate; and improved ex post controls and computerization of exemptions by the collection administrations. These efforts would bring the total revenue-to-non-oil GDP ratio to 19.2 percent this year, from 14.5 percent in 2004. As regards expenditures, the planned 36 percent rise primarily reflects investment and spending in priority sectors that is financed with earmarked oil revenue. Poverty reducing spending will amount to 10.4 percent of non-oil GDP. While the government intends to hire about 2,931 people, most of whom (90 percent) will be in the priority sectors, it will not grant a general wage increase for the civil service in 2005.

Domestic debt will continue to be settled. Restructuring arrangements will permit payments to some creditors. The stock of unpaid treasury arrears at end-2003 will be inventoried and verified, and the authorities will request financial support from donors for the implementation of an action plan prepared by end-2005 that will eliminate these arrears.

As regards the **monetary and financial sector**, monetary policy, which is conducted at the regional level, will remain prudent, consistent with the CFA franc peg to the euro. It should be noted that the government has planned to reduce its liabilities to the banking system. The Chadian authorities will also pay off the costly exceptional advances granted by the BEAC in 2003-04 by using the additional margin that will be provided by the increase in the country' statutory advances from the central bank.

Turning to **structural reforms**, the government of Chad is committed to press forward reforms in the sectors of cotton, energy, expenditure and cash management, and good governance and transparency in resource management. As regards the *cotton sector*, the government will hold in early 2005 consultations with the World Bank and other donors on the current sectoral crisis, which is caused by the decline in international prices and the unfair competition stemming from the large subsidies granted by advanced countries to their producers. These consultations will allow the authorities to prepare a strategy for the sector.

This strategy will take into account the feedbacks from the workshops organized for producers and potential investors. Other measures envisaged for 2005-06 include a broad range of actions, in particular: the completion of the ex-ante Poverty and Social Impact Analysis (PSIA) for which the first stage of qualitative and quantitative analyses has already been completed; a decision on how to rehabilitate the company or assume its debts, depending on the choice of privatization scenario; specifying the market regulation and access to credit for the cotton sector after privatization is completed; clarifying the producer price-setting mechanism; boosting productivity and efficiency by the training of cotton farmers on production and selling techniques as well as information to them about market conditions and inputs; improving the rural road network in cotton-producing areas; and launching an ex-post PSIA after privatization of Cotontchad.

In the *energy sector*, the authorities' focus will be two-fold: (i) increasing production immediately and its capacity later on, and (ii) improving the financial situation of the public water and power company, STEE. In the short run, the government will boost power supply by reconditioning old generators and purchasing three new ones to meet the current demand. However, given the high costs of fuel used by the generators, the government plans to build in the medium term a new power plant at Farcha to improve power production capacity, while reducing the costs. On the second point, that of addressing the financial difficulties of STEE, an action plan with the assistance of the World Bank is already underway.

Efforts at *strengthening expenditure and cash-flow management* as well as *good governance and transparency in resource management* will be pursued. As noted above, the government will need additional technical assistance from the Fund, in particular to strengthen budgetary procedures, address the fragmentation of cash management through the setting of a treasury single account, and prepare the implementation of all other actions recommended by Fund's FAD. Also planned is the connection of priority ministries to the Integrated Financial Management Information System, the codification of poverty-reducing spending, and the submission to the parliament of the 2004 settlement law. The update of the 2000 civil service census, the strengthening of personnel management through payroll computerization and personnel management systems, the recruitment of qualified staff, and the provision of training to ensure proper implementation of the new procurement code, all will contribute to enhance good governance and transparency in resource management.

Finally, in the *oil sector*, the quarterly reports prepared by the supervisory board, CCSRP, will continue to be published; the investment strategy for the resources allocated to the FFG through a separate offshore account will be finalized by end-June 2005; and a working group will be set up by May 2005 to prepare the required actions for implementing the Extractive Industries Transparency Initiative (EITI) to which the Chadian government has decided to adhere.

III. HIPC Initiative and PRSP Implementation

My authorities are implementing the national strategy of poverty reduction, which was endorsed by the Board of the Fund in November 2003. The PRSP monitoring mechanism has been finalized, and the first PRSP progress report which provides a review of specific measures needed to achieve the PRSP objectives and highlights the key poverty reduction issues with insufficient attention, was completed in late December 2004.

As regards the HIPC Initiative, my authorities are confident that they will meet the Completion point conditions in 2005. In light of their encouraging actions and results, it would be useful to free more resources for poverty reduction. The substantial budgetary support that the country would receive through debt relief at the Completion point will be very helpful, and my authorities will work to implement the necessary structural measures, all of which are in progress and some completed. In particular, as Table 12 of Staff Report indicates, substantial achievements have been made in the priority sectors of health, education, and basic infrastructure.

Conclusion

The progress achieved thus far remain fragile. The commencement of the petroleum era in Chad, which has created high expectations amongst the population, would not suffice to get the country out of widespread poverty, in view of the relatively small contribution of oil revenue to the government budget thus far and in light of the daunting social needs of the population. Assistance from the international community will remain critical to support the efforts of Chad, which ranks among the poorest countries in the world. An illustration of the critical need for external assistance is the exponentially-growing priority sector expenditure in contrast to the abrupt decline in oil revenues after 2009 based on currently available oil fields.

As for the Fund's highly needed and catalytic contribution, a new PRGF arrangement is best-suited to not only reinforce incentives for sound policies and reforms, but also enable Chad to meet the expected financial needs necessary for the strengthening of its capacities, make progress towards substantial debt relief under the HIPC Initiative, ensure the preparation of the post-oil era, allow the sustained implementation of the country's national strategy of poverty reduction, and prepare the long road to development. The new Chadian government is also requesting an additional interim assistance under the HIPC Initiative, which will help to fully finance, along with resources from other multilateral donors, the 2005 program.